

Unrated

Share price: 46,800 VND

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Stock Information

Description: Vietnam's leading insurance company with a 30% share of the country's life insurance premium revenues and a 25% share of its non-life premium revenues.

Ticker:	BVH VN
Shares Issued (m):	680
Market Cap (US\$ m):	1,581
3-mth Avg Daily Vol. (US\$ m):	0.6
VN Index:	421.99
Free float (%):	5

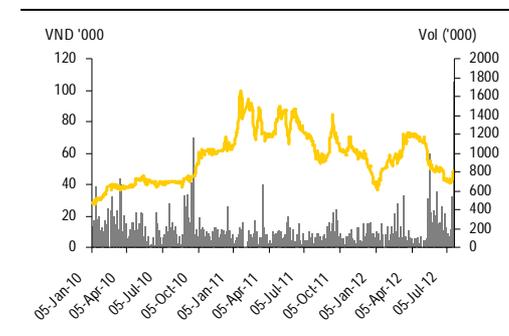
Major Shareholders:

Ministry of Finance	43.4
HSBC Insurance Asia	8.1
State Capital	2.2

Key Indicators

ROE – annualised (%)	11
Net cash (VND b):	4,617
NTA/shr (VND):	10,881
Interest cover (x):	3.3

Historical Chart



Performance:

52-week High/Low VND86,000 / VND36,300

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute(%)	0.6	(31.3)	(2.4)	(29.3)	19.0
Relative(%)	1.6	(24.4)	(13.9)	(31.6)	(1.1)

Bao Viet Holdings (BVH)

HSBC Deal: Short-term Pop, Long-term Drop

HSBC wants to sell its 18% stake in BVH at a 40% premium. HSBC bought 18% of insurance market leader BVH over 2007–2009 for \$360m. The stake was worth \$250m at the beginning of last week; however, HSBC wants to sell its shares and recoup the \$360m it originally paid. The market took that news last week to mean that HSBC has buyers willing to pay a 40% premium, or about 3.6x P/B, which caused the BVH stock price to increase 11% last week. We do not expect this euphoria to last and we consider PVI, which is trading at around 0.7x P/B a more attractive insurance stock.

Sumitomo Life is the most interested buyer. The Japanese business press confirmed that Sumitomo Life is the most interested potential buyer of HSBC's BVH shares. Japanese companies are well-known for their tendency to pay premium prices in acquisitions, which contributed to the short-term euphoria surrounding the BVH share price, but we would point out that Japanese corporates have only paid moderate price premiums for Vietnamese companies recently. Mizuho paid a 24% premium for its VCB stake in 2011 and SMBC paid a 9% discount for its EIB stake in 2009 (the bank was unlisted at the time).

Vietnam's insurance industry — good underwriting, bad investing.

The underwriting side of Vietnam's insurance businesses is growing rapidly (15%/yr for life, 20%/yr for non-life), but the investment side of most firms is cause for concern. BVH's premium revenues are split roughly 50:50 between life and non-life and revenue growth is healthy, but the company's annual investment returns have hovered around 5% in recent years.

Negative long-term impact on BVH. HSBC's plans to divest its BVH stake are part of its moves to exit its non-core businesses around the world. The company recently sold its insurance businesses in HK, Singapore, Argentina, and Mexico. HSBC's 20% stake in Techcombank led to a significant boost to that bank's performance. The hope was that HSBC would have a similar impact on BVH. We would expect Sumitomo to be a more passive owner compared to HSBC, although there would certainly be some advantages to being owned by an insurance company rather than a bank.

Bao Viet Holdings– Summary Earnings Table

FYE 31 Dec (VND b)	FY08	FY09	FY10	FY11
Revenue	8,114	7,393	8,245	9,371
EBITDA	n/a	1,024	1,191	976
Recurring Net Profit	529	892	983	1,201
Recurring Basic EPS (VND)	985	1,462	1,481	1,768
EPS growth (%)	n/a	48.4	1.2	19.3
DPS (VND)	n/a	1,100	1,200	1,200
PER	48.6	32.8	32.3	27.1
EV/EBITDA (x)	n/a	21.4	16.2	22.2
Div Yield (%)	n/a	2.3	2.5	2.5
P/BV(x)	3.9	3.8	3.0	2.8
Net Gearing (%)	63	63	60	60
ROE (%)	8.1	11.7	9.9	10.8
ROA (%)	2.2	2.6	2.4	2.7

Consensus Net Profit (VND b)

Source: Maybank IB

Bao Viet is Vietnam's Premier Insurance Company

BVH was founded in 1964, and the Ministry of Finance still owns 70% of the company. BVH has 130 branches nationwide and has historically been focused on life insurance, but premium revenues are now roughly split 50:50 between life and non-life. The company has about 30% market share of Vietnam's life insurance market and about 25% of the non-life market.

In early 2011 BVH made up 13% of the VN-Index, prompting aggressive buying of the share by the two popular ETF's from Deutsche bank and Market Vectors. This pushed valuation up to 4x book value but valuation has now drifted back down to under 3x P/B. BVH's share price lagged the VN-Index 10% YTD, up to the beginning of last week (before the HSBC news surfaced) due to weak ETF inflows in 2012 (because of the to the on-going market correction), due to the high valuation of BVH and due to the introduction or increased weighting of other stocks in the ETF's.

Bao Viet's investment returns in recent years have been just over 5%, despite bond yields of well over 10%. Fixed income makes up about 55% of the firm's investment portfolio while "strategic investments" have made up as much as 40% of the company's investments in recent years, with the remainder of premium revenues invested in listed equity. The company also owns 51% of Bao Viet Bank (15% of total assets and circa 30% of after tax profits), and 60% of Bao Viet Securities (2% of total assets).

PVI is our preferred insurance stock pick

PetroVietnam Insurance holds a 25% market share of Vietnam's non-life insurance market. The company is primarily focused on oil & gas insurance but is pushing into other non-life businesses such as health, motor, etc. The company also recently set up a joint venture with Canada's Sun Life and it plans to increase its capital from \$100m to \$220m in 2012 in order to expand its insurance businesses.

Talanx, the third largest insurance company in Germany, bought 25% of PVI in August 2011 at a 100% premium to the then prevailing stock price. In our discussions with Talanx's management they indicated that they believed the purchase price was at a 1.3x book value based on their own due diligence (the accounting numbers indicated a much higher book value). The Oman Investment (sovereign wealth fund) purchased 10% of PVI 2010 and we expect that a good proportion of the \$120m of new capital PVI wants to raise will come from Talanx and Oman Investment.

Vietnam's government inspectorate (corruption fighting agency) criticized PVI for achieving annual investment returns under 3% for the last five years, which the company disputes. We estimate that the company's ROE would increase from about 10% to 20% were it make moderate improvements to the investment side of the business.

It's not clear what impact the foreign investors will have on revamping the company's investment activities. Previous attempts by a powerful local investment fund, "Red River" were not successful. Our hope is that Talanx will have more success in restructuring PVI because it can add more value with its extensive expertise in the insurance business.

Vietnam Insurance Industry Overview

- High growth and potential future growth for both the life and nonlife segments:
 - Life premiums are growing about 15% a year, non-life premiums 20% a year. Life premiums per capita are about \$10 versus \$80 in Thailand and \$140 in Malaysia. The non-life business is primarily industrial insurance but health and motor are growing rapidly.
 - Historically Vietnamese have relied on “friends and family” as a safety net but this cultural trait is changing and uptake of traditional insurance products is growing rapidly.
- The life business is dominated by 11 foreign firms, especially Prudential (40% market share) and Manulife (11% share). BVH (30% share) is the only local life insurance company and 9 other foreign firms such as AIA, ACE, Daiichi Life, Korea Life, etc.
- Foreigners are also actively investing in and partnering with local firms, including: HSBC-BVH, Talanx-PVI, AXA-BMI (focused on motor insurance), Swiss Re – VNR (Vina Reinsurance), Insurance Australia Group – AAA Assurance Corp.
- Vietnamese (and foreign) firms Underwriting businesses are relatively sound and growing quickly, although there are some concerns about pricing based on political considerations rather than risk (for local firms).
- The Investment side of Vietnamese insurance companies is a serious concern for all of the local firms. Investment returns have been very poor across-the-board, calling into question the internal compliance procedures of those firms (for example, 40% of BVH's investment portfolio is comprised of “strategic investments”).

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Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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