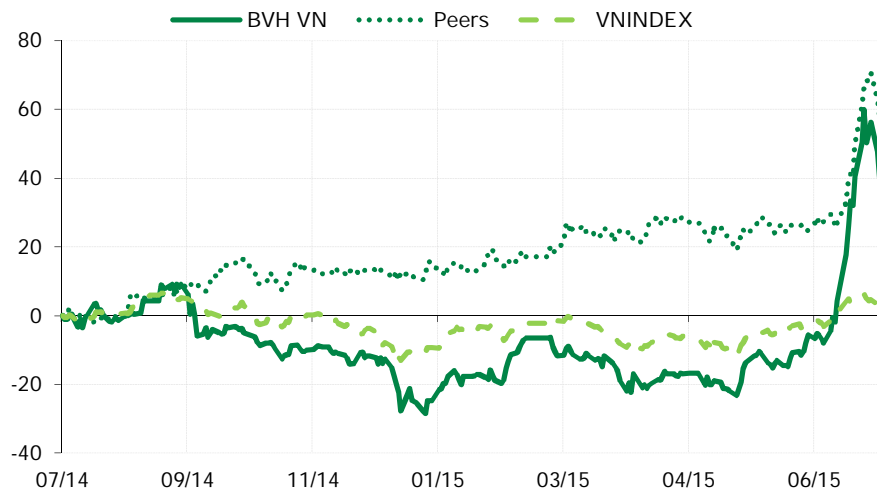


## INITIATING COVERAGE: SELL

Current Price (21/07/2015):	VND	57,000
Long-term value	<b>Overvalued</b>	
Target Price:	VND	30,500
Short-term trend:	<b>Bearish</b>	
Resistance level:	VND	70,000
Support level:	VND	42,500
Bloomberg ticker: <b>BVH VN</b>	Exchange:	HSX
Industry:	Insurance	
Adjusted Beta:	1.13	
52w High / Low (VND)	67,500/29,600	
Outstanding Shares (mn)	680.5	
Market Cap (VND bn)	38,787	
Free Float (%)	25.83	
LTM Avg Trading Vol	301,790	
Foreign-owned Ratio (%)	24.2	
Year	Dividend (VND)	EPS (VND)
2016F	1,000	2,152
2015F	1,000	1,692
2014A	1,500	1,850
2013A	1,500	1,672
Ratio	BVH	Peers VNI
P/E	31.49	13.62 13.10
P/B	3.09	1.12 1.87
ROE	9.82	8.24 14.98

### Company Description:

- ❖ Established in 1965, Bao Viet was the first insurance company in Vietnam in both life and general insurance.
- ❖ In June 2009, BVH was successfully listed on the Ho Chi Minh Stock Exchange
- ❖ BVH is among the largest and most diversified financial groups: it ranks eighth in terms of market capitalization on the HSX.
- ❖ The group provides a comprehensive range of financial services, including insurance, banking, fund management, securities, and investment.



We initiate coverage of Bao Viet Holdings Group (BVH) with a SELL recommendation. Over the long run, BVH has quite sustainable fundamental, however, the stock needs to cool down for a while in the short run.

- ❖ **Strong presence in insurance business:** BVH's life insurance business ranks first, and its non-life insurance business ranks second, in terms of market share. Insurance business contributed in total up to 90 percent of BVH's revenue.
- ❖ **Commercial and investment banking divisions are not strong contributors:** From September 2014, Bao Viet Bank was no longer a subsidiary of BVH. In combination with weak performance, commercial banking's contribution to BVH's business results will further decline.
- ❖ **Insurance market is forecast to grow steadily for the next five years:** However, competition is getting fiercer.
- ❖ **Financial investment income likely to decline:** Lower government bond yields and deposit interest rates should push the company's investment income down.
- ❖ **Recent changes in top management positions and related scandals have created concerns regarding corporate governance:** The efficiency of the new management team will need to be proven over the next few years.
- ❖ **Recent share price surge pushed stock into overvalued territory:** BVH shares surged 75 percent over the past month. This was mainly due to rumors of an acquisition by Samsung Life, but such a deal is unlikely to be reached.
- ❖ **Bearish short term trend:** Our technical analysis model has generated a bearish signal. Despite proposed changes in foreign ownership limits, significant demand from foreign investors due to BVH's leading position in the insurance industry, the price has almost doubled, stretched even above its historical high. Hence, we think that the stock needs some time to cool down.

Please see important disclosure information at the end of this report.

## **CONTENTS**

<b>OVERVIEW OF LIFE INSURANCE MARKET</b>	<b>3</b>
<b>OVERVIEW OF NON-LIFE INSURANCE MARKET</b>	<b>5</b>
<b>OVERVIEW OF BAO VIET GROUP</b>	<b>8</b>
<b>BAOVIET BUSINESS ANALYSIS</b>	<b>11</b>
LIFE INSURANCE – BAOVIET LIFE	11
Bao Viet Life performance	11
2015 business plan	13
NON-LIFE INSURANCE – BAOVIET INSURANCE	14
Overview of Bao Viet Insurance	14
Bao Viet Insurance performance	14
2015 business plan	15
BANKING – BAOVIET BANK	15
Overview of Bao Viet Bank	15
Bao Viet Bank performance	16
FINANCIAL SERVICES & OTHERS	17
Securities brokerage – BVSC	17
Fund management – Bao Viet Fund (BVF)	19
Investment – Bao Viet Invest	19
FINANCIAL INVESTMENT	20
CONSOLIDATION	20
Revenue and PBT breakdown by business activities	20
Group's 2015 business plan	21
FINANCIAL RATIOS	22
<b>VALUATION &amp; RECOMENDATION</b>	<b>23</b>
FORECAST & ASSUMPTIONS	23
VALUATION & RECOMMENDATION	25
TECHNICAL ANALYSIS	27
<b>APPENDIX</b>	<b>27</b>
CONTACT INFORMATION	31

## OVERVIEW OF LIFE INSURANCE MARKET

In 2014, the global life insurance business grew 4.8 percent (vs. -0.5 percent growth in 2013) with emerging Asia's market growth at 13.1 percent. 2014 was also a successful year for Vietnam's life insurance market, continuing strong growth that began in 2012. According to AVI, gross written premiums reached VND28,339 billion (USD1.31 bn), increasing 25.1 percent y-o-y.

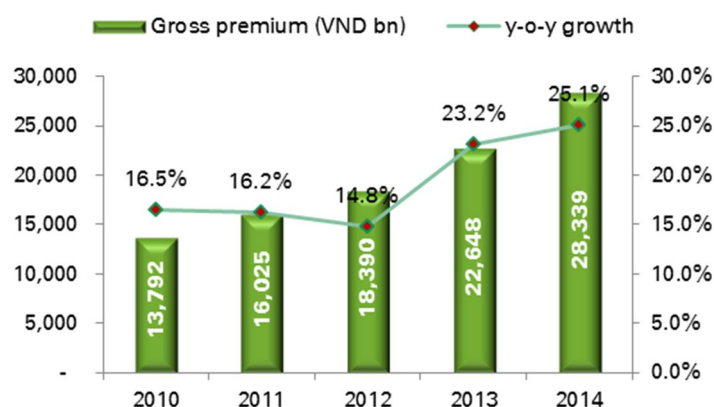
While life insurance companies usually offer seven groups of products, the majority contribution (more than 89 percent) to revenue is from investment-linked (UVL) and endowment products.

Vietnam's life insurance industry is still at an early stage of development with ideal demographics, a growing middle class, and potential future economic growth, making it a very attractive market to many foreign investors. The influx of well-known foreign players in the industry has also led to the erosion of domestic companies' market share. The Vietnam life insurance market is now dominated by six big players (there were 17 players at end of 2014), and only Baoviet Life is still majorly controlled by a domestic entity.

In 2007, after Ministry of Finance (MoF) approval for life insurers to provide investment-linked insurance, also known as universal life, the preference for buying this product has continued to increase over time. The annuity in investment-linked products would depend solely on the performance of the investment fund. The potential for this type of product remains largely untapped and will continue to grow along with the development of investment channels in Vietnam.

In 2013, pension insurance was introduced to the public. Pension insurance is a voluntary form of savings to fund retirement. However, not all insurance companies are able to provide this type of product. Based on the requirements of Circular 115 there are only six eligible companies: Prudential Vietnam, Bao Viet, Manulife, Daiichi Vietnam, AIA, and PVI Sun Life.

### Industry Total Gross Premium



Source: Source: BVH's Annual Reports

Q1/2015 results of life-insurance segment

Total Revenue of the insurance industry in Q1/2015 amounted to VND14,380 billion (USD663.5 mn), up 18.76 percent y-o-y, of which non-life insurance revenue reached VND7,542 billion (USD 348 mn), up 10.69 percent y-o-y, and life insurance revenue reached VND6,838 billion (USD316 mn), up 29.15 percent. New business revenue reached VND2,085 billion (USD96.2 mn), up 41.52 percent y-o-y, of which endowment insurance revenue accounted for 43.06 percent, UVL insurance revenue accounted for 40.1 percent, term life insurance revenue accounted for 5.0 percent, and pension insurance revenue accounted for 2.2 percent.

Industry outlook

The global insurance market is expected to grow at a slower pace in 2015: 4.3 percent compared to 4.8 percent in 2014. Conversely, growth in emerging markets will accelerate from 9.1 percent to 10.4 percent, and premium growth will come mostly from Asian countries (*Source: Swiss Re*).

Vietnam's life insurance market is forecast to maintain positive and healthy growth over the next five years at CAGR of about 14 to 15 percent (*Source: BMI*). For 2015 in particular, the following have been identified as main growth drivers:

- ❖ Recovery of the economy with expected GDP growth of 6.2 percent and CPI below five percent
- ❖ Favorable demographic conditions
- ❖ Interest rate kept at low levels, making life insurance products more attractive

Some other trends can also be foreseen, including:

- ❖ Increasing competition due to international integration and competition from banks
- ❖ Creating added value for customers through the combination of product functions between protection, investment, and health care
- ❖ Establishment of fund management companies/functions to support investment-linked and pension insurance products
- ❖ Developing professional agents and diversifying distribution channels

Among new distribution channels such as bancassurance, direct marketing, telemarketing, worksite, and others, bancassurance will be the most important, with strong growth potential. In other countries in Asia, 20 to 50 percent of banks' fees income comes from insurance products distribution for insurance companies. In Vietnam, this figure is still small as bancassurance is still a new concept. Total revenue earned from the bancassurance channel accounted for only five to six percent of total new business revenue. Forming long-term exclusive partnerships is becoming a trend, as life insurance is a long-term business and requires long-term commitment as well as investment of both banks and insurance companies. There are currently four long-term exclusive partnerships in the market, Prudential and Maritime Bank, Prudential and Standard Chartered, AIA Vietnam and Citibank, and Dai-ichi Life Vietnam and HD Bank.

## OVERVIEW OF NON-LIFE INSURANCE MARKET

### Slower growth since 2011

*Stagnant growth since 2011, due to slowing economic growth and low pricing, combined with high commissions and claim ratio.*

The non-life insurance market in Vietnam witnessed an average premium growth rate of 23 percent between 2005 and 2011. This extraordinary growth mirrored the country's booming economy over the same period. Yet the growth of the non-life segment was struck by the government's efforts to control inflation, and tighten public spending and investment in subsequent periods. As interest rates increased and credit lines were tightened, investment activities and the demand for property insurance declined. From 2011 onwards, growth of the non-life insurance segment started to decline, for a number of reasons other than government action. Due to slowing economic growth, many non-life insurers competed on low prices, reducing fees lower even than their break-even point. False insurance claims have also risen over the past few years, which has translated into higher premium fees as insurance companies try to screen and select genuine clients. However, high premium fees are obstacles for many households in Vietnam due to low incomes.

The claim ratio of the non-life market was 41 percent, equivalent to VND10,353 billion (USD478 mn) in 2014, up by 4.1 percent compared to 2013. The culprits of this high ratio were the riots that occurred mid-year related to the East Sea issue, and several large fires that occurred in quick succession (at Diana factory and a fireworks factory).

The main focuses of the non-life insurance business remain health and motor insurance products. However, in 2014 the highlight for the non-life market was the completion on-time of the agricultural insurance and export credit insurance pilot schemes. In particular, the MoF are cooperating with other ministries to deploy fisheries insurance products.

*Small players experienced higher growth*

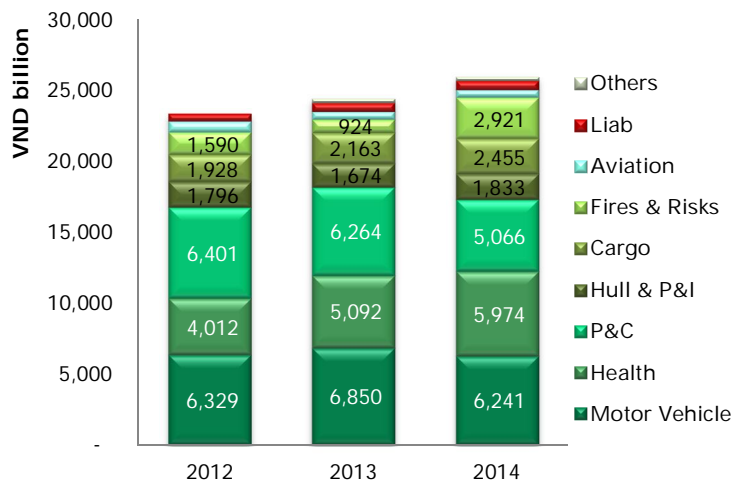
Among smaller players, BIDV Insurance Corporation (BIC) and Military Bank Insurance Corporation (MIC) continue their high growth from exploitation of insurance products for the banking industry and its bancassurance channels. MIC's bancassurance revenue grew by three digit numbers in 2014, accounting for approximately 10 percent of its total revenue. Foreign players' growths seemed to slow, with low growth rates for a number of companies, including ACE and Cathay. Since early 2015, non-life insurance companies have aggressively widened their sales channels and networks – in particular, BIC was officially approved to open a representative office in Myanmar. MIC has also developed its bancassurance sales channel through its cooperation with NCB and PVcombank.

### Diversified product offerings

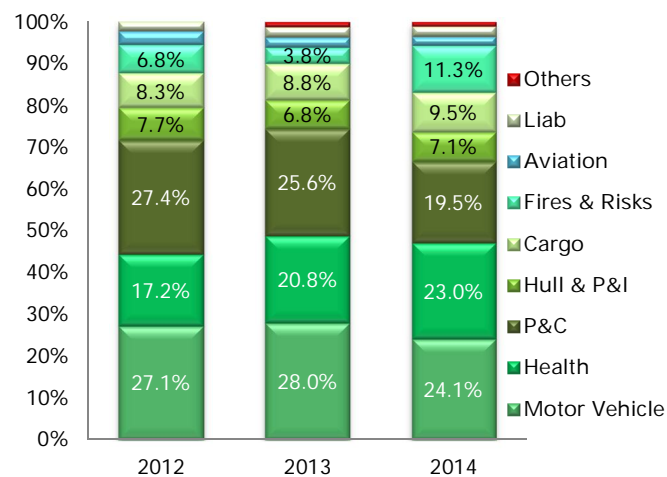
*Motor & vehicle, property & casualty, and personal accident & health together account for 70 percent of total revenue*

Despite its wide range of products, approximately 70 percent of non-life insurance revenue comes from three products: motor & vehicle insurance, accounting for 28.3 percent of the market, property & casualty (P&C) insurance (21.8 percent), and personal accident & health (P&H) insurance (20.7 percent). This can be explained by the fact that motor & vehicle insurance and a number of P&C insurance products are compulsory in Vietnam. Vietnam's public awareness of P&H products, as well as living standards, have shown signs of improvement, which has raised demand in this segment.

Gross premium breakdown (VND billion)



Gross premium breakdown by product



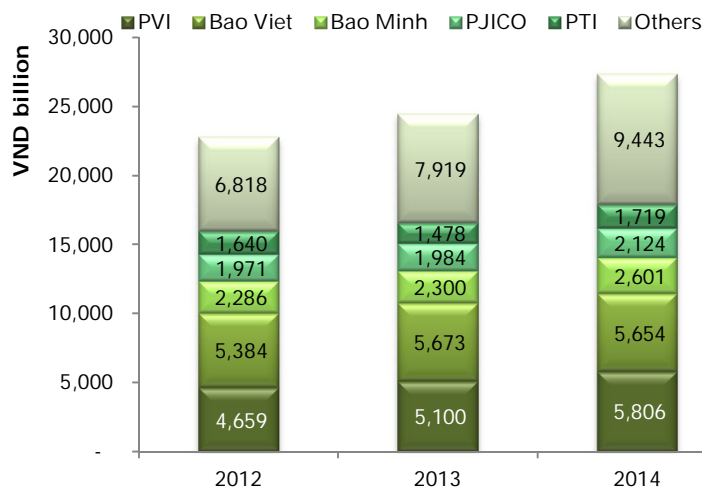
Source: Source: Insurance companies' Annual Reports

### Fierce competition for market share

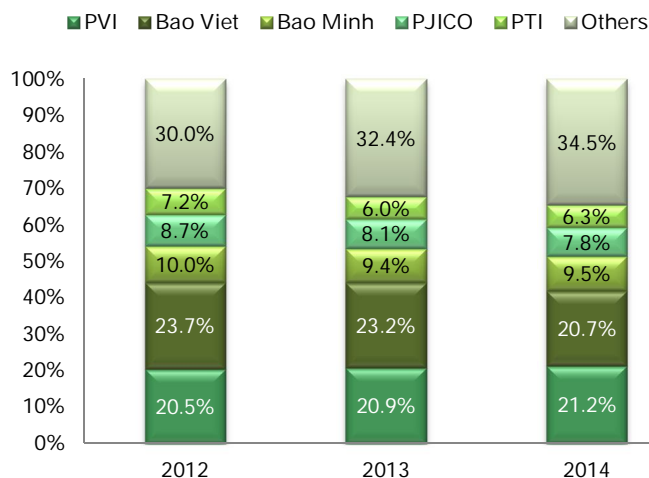
Non-life is dominated by five domestic players.

MoF sets the insurance commissions ceiling to limit commission competition among insurers, and to ensure the solvency of insurance companies. However, this requirement does not seem to work as envisioned. In fact, most insurance agents and brokers try to get the maximum rate of commission for selling insurance products. Currently, there are 29 non-life insurers in the industry with the top five insurers' market share accounting for two-thirds of all premiums. Consequently, competition is intense for the remaining 19 companies that struggle for just one-third of the remaining market share. The competition for commissions in Vietnam has turned the market into an unfair playground for foreign players competing for market share. In general, foreign players comply with applicable regulations more strictly than their local competitors. In 2014, the total market share held by wholly foreign-owned non-life insurers was only 8.3 percent of the total non-life market.

Total gross premiums



Gross premium market share



Source: Source: Insurance companies' Annual Reports



### Trends in foreign and domestic strategic partnership

*Foreign strategic shareholders for top players...*

In the Vietnam Insurance market, BVI, BMI, and PVI were the pioneers in having foreign strategic shareholders; Bao Minh Insurance was the first in 2007 with AXA. With the recovery of the economy, since the beginning of 2015 domestic insurance companies have announced successive foreign strategic shareholders. After PTI with foreign strategic partner Dongbu (Korea), BIC was the seventh domestic insurance company to welcome a foreign strategic partner, Fairfax from Canada, increasing charter capital by VND1,000 billion (USD46.1 mn). PJICO also intends to find a foreign match, but has not yet announced a partner, and PVI is looking for a strategic shareholder for PVI Re. Non-life insurance activities have mainly relied on 'networking', which is not a strength of foreign players. According to statistics provided by IPSOS, a market research company, only 35 percent of clients choose Insurance products based on low price, the majority focusing on service quality and better coverage. Foreign partners can certainly fill these holes for domestic players.

*...and domestic strategic shareholders for smaller players*

While larger players search for foreign strategic shareholders, smaller players instead opt for domestic partnerships. BSH is supported by SHB, T&T, and SHS; Bao Long is supported by SCB (58.73 percent holding), EIB, and VCB; MIC is wholly owned by MBB; and ABIC is waiting for MoF approval to have Agribank (20 percent holding) as its strategic shareholder. The key benefit of having domestic support is leverage of the strategic shareholder's finances, network, and clientele, thereby growing to become more attractive to foreign investors. For ABIC, for example, with the leverage of Agribank's network, bancassurance has helped to more than double the company's profit in 2014. Another successful case is MIC: MBB has opened up the opportunity for MIC to co-operate and cross-sell within MBB's network as well as other military corporations. On the banks' side, partnering with an insurance company can boost cross-selling activities and increase non-interest income to contribute to total profits.

### Industry outlook

*2015's expected growth is 10 to 12 percent.*

In 2014, the global non-life insurance market was estimated to have premium growth of 2.5 percent y-o-y (vs. 3.1 percent in 2013) while Vietnam's non-life insurance market grew at 10.5 percent y-o-y (vs. 7.0 percent in 2013), and is expected to grow at 10 to 12 percent in 2015. The key drivers of this encouraging result were a stable macro economy, the recovery of enterprises, and increased FDI imbursement.

*Lower interest rate will cut the financial income of insurance companies*

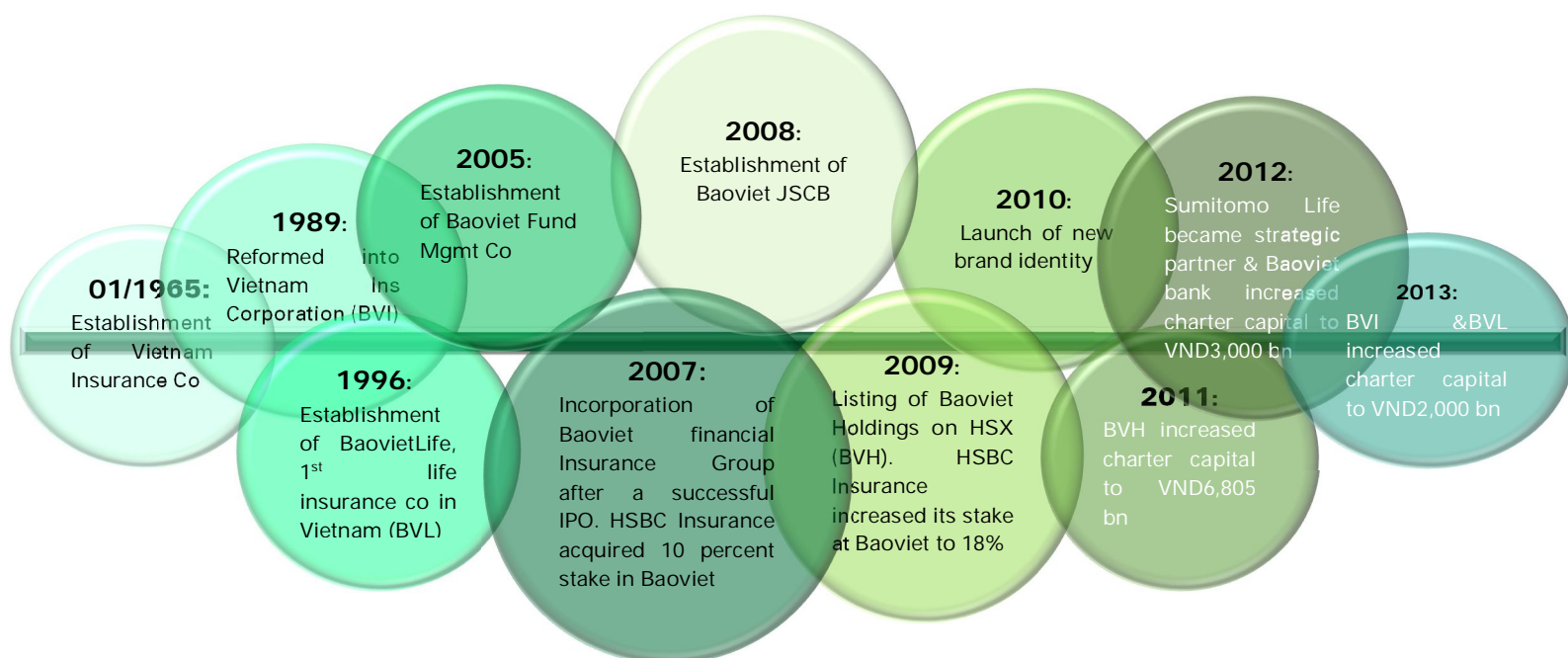
Total revenue of non-life insurance companies, however, will be further impacted by lower interest rates. Although lower interest rates are the main catalyst that boosts manufacturing growth and controls inflation, as well as stabilizing the FX market, it was instead the dominant culprit that adversely affected the financial income of non-life insurance companies. In 2014 profit from financial activities of most insurance companies declined – according to consolidated data from MoF, deposits accounted for 70 percent of total investment for non-life insurance companies. Based on audited financial statements of a number of non-life insurance firms such as PTI, PJICO, and MIC, financial activities accounted for 80 percent of their total profits. Hence, non-life insurance companies' profit growth continues to falter, the worst even recording negative growth. Given the possibility that the deposit interest rate will be cut further by 0.5 to 1.0 percent in 2015, and combined with high claim costs accounting for 40 to 50 percent of total revenues, non-life insurance companies have set rather

conservative profit targets for 2015. PTI have set PBT growth of 8.5 percent, and PJICO of negative four percent.

### OVERVIEW OF BAO VIET GROUP

Established in 1965, Bao Viet was the first insurance company in Vietnam in both life and general insurance. After 50 years of development, today the group provides a comprehensive range of financial services, including insurance, banking, fund management, securities, and investment. Bao Viet is one of the leading financial groups with a distribution network across Vietnam, serving millions of customers. In June 2009, Bao Viet Holdings was successfully listed on the Ho Chi Minh Stock Exchange with stock code BVH. At present, BVH ranks eighth in terms of capitalization and is considered a blue chip stock trading on the HSX.

#### Important milestones



#### Business structure

Baoviet Group operates under the model of a parent Holdings Company (BVH), making investments in its six subsidiaries, one joint venture, and eight associate companies, with a total capital contribution of VND7,478 billion (USD345 mn) in FY2014.

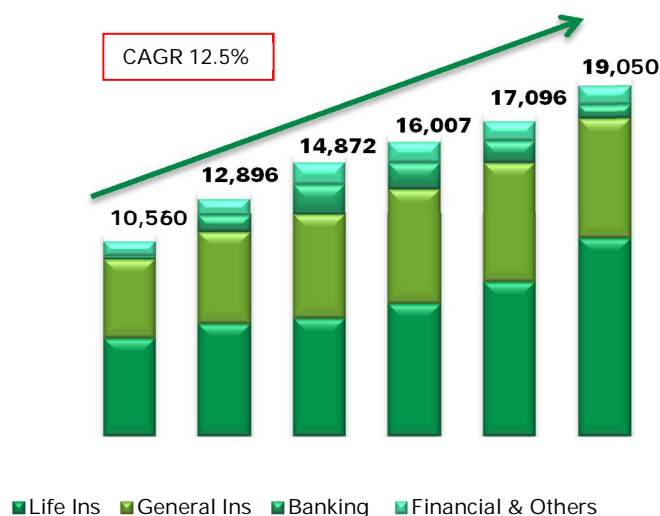
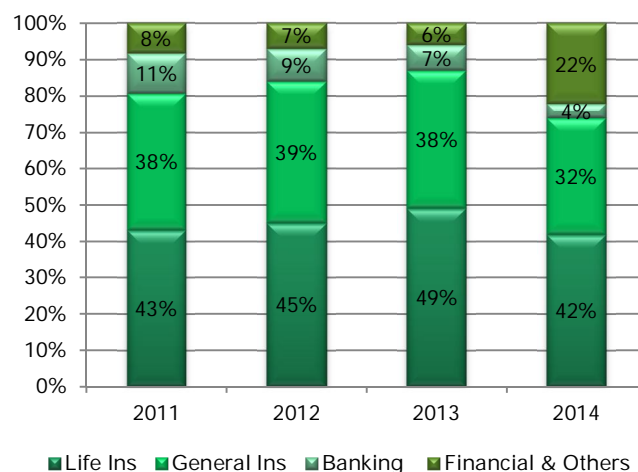
BVH can be considered Vietnam's first and most comprehensive financial group, offering full-line financial services including life-insurance (Bao Viet Life), non-life insurance (Bao Viet Insurance), commercial banking (Bao Viet Bank), investment banking (Bao Viet Securities & Bao Viet Fund), and real estate investment (Bao Viet Invest). The synergy and advantages of such a diversified and comprehensive organizational structure, however, have not been realized. While strong in its core insurance business, other business entities' contributions to the Group have been quite inconsequential, with no clear competitive edge in each business.



Subsidiaries	Charter capital (VND bn)	BVH's ownership
Bao Viet Life	2,000	100%
Bao Viet Insurance	2,000	100%
Bao Viet Bank*	1,560	49.52%
Bao Viet Securities	695	59.95%
Bao Viet Fund Mgt	50	100%
Bao Viet Invest	110	55%

The Group decreased its ownership in Baoviet Bank from 52 percent to 49.5 percent on September 24, 2014 after the bank held a private placement to increase its charter capital from VND3,000 billion (USD138 mn) to VND3,150 billion (USD145 mn). Therefore, instead of consolidating Baoviet Bank's full-year 2014 profit into the Group like previous years, Baoviet Bank's 1H2014 profit was consolidated into the Group's profits but its 2H2014 profit was reported in the Group's share profit from associates following the equity method. The total revenue and net income from banking services, therefore, has not been reported clearly in the Group's business results.

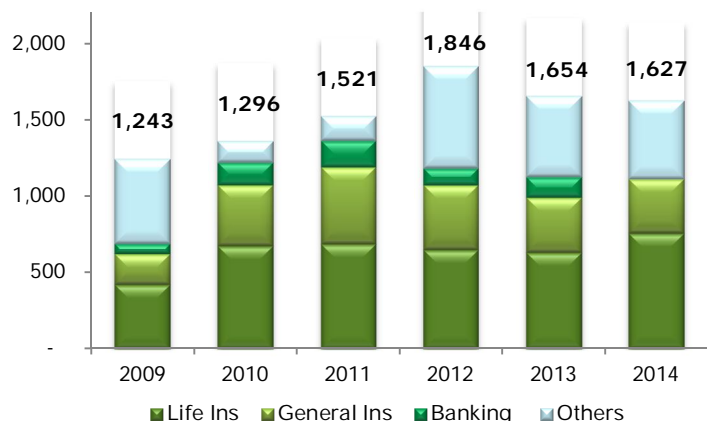
Insurance has always been the major contributor to the Group's overall revenue and profit, consistently accounting for over 80 percent of total revenue. In 2014, 74 percent of the Group's revenue came from insurance business and 26 percent came from other financial businesses.

**Consolidated revenue breakdown**

**Consolidated revenue by operating segment**


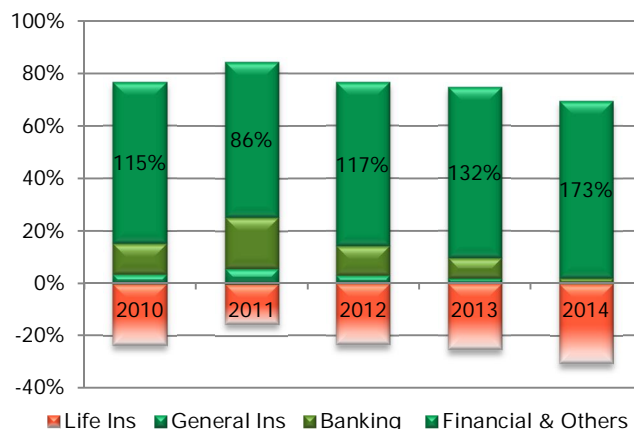
Source: BVH's Annual Reports

In terms of Profit before tax by business line, financial income contributed the most to the overall Group's PBT while general insurance contributed a humble proportion and life insurance recorded negative contribution.

### Consolidated PBT by business lines



### Consolidated PBT breakdown

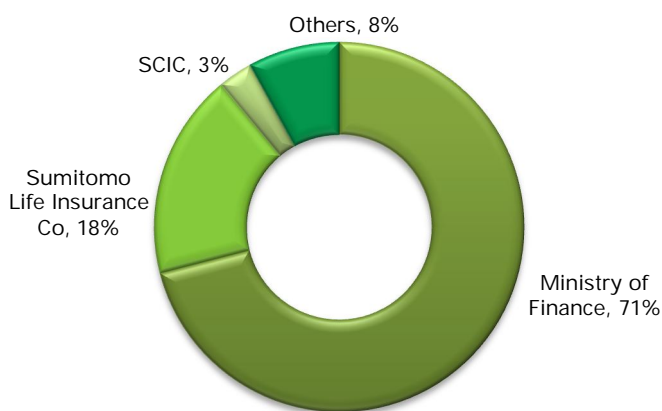


Source: BVH's Annual Reports

### Ownership structure

From a 100 percent State-owned enterprise at establishment, Baoviet has been converted into a financial group with diversified ownership. At its IPO in 2007, State ownership was 77.54 percent; following the private placement to HSBC Insurance in 2010 this was reduced to 70.89 percent. In March 2013, HSBC Insurance completed a transfer of an 18 percent stake in Baoviet to Sumitomo Life Insurance Company, and Baoviet's ownership structure has been stable since then. According to Resolution No. 15/2014, the Government will gradually reduce its ownership in all SOCBs, including Bao Viet Holdings, but still retain at least 65 percent of their charter capital (except Vietinbank). Accordingly, we expect the privatization process to continue.

### 2014 ownership structure



Source: BVH's Annual Reports

### The BOD and BOM

The current BVH Board of Directors has nine members, with four recently promoted in December 2014, including the new Chairman. The CEO of BVH also only recently took the post; 2014 was a year of management change and instability.

In April 2014, Mr. Tran Trong Phuc, former CEO of Bao Viet Holdings and also CEO of Bao Viet Insurance; Mr. Ta Van Can, former chief accountant of Bao Viet Insurance; and Mr. Tran Minh Thai, former accountant at Bao Viet Insurance, were placed under investigation for ‘irresponsible actions resulting in serious consequences’.

Bao Viet Holdings had dismissed Mr. Phuc from his posts as CEO and board member on March 31, and appointed Mr. Duong Duc Chuyen, a board member and director in charge of investment for Bao Viet Holdings, as his replacement; Mr. Chuyen remained as CEO for less than three months. On June 25, 2014, Mr. Phi, the current CEO, was promoted to replace Mr. Chuyen.

At the time Mr. Phuc was appointed to the CEO position in 2013, his promotion had been long awaited by the majority of shareholders as he was a high-profile manager with years of experience in senior positions in the insurance sector. However, it did not turn out as expected. Under Mr. Phuc, BVH’s profit declined after three consecutive years of growth, the loss mainly coming from the insurance business. BVH’s stock price was steady during Mr. Phuc’s tenure, but within roughly a month of the negative news coming out the stock price had dropped 24 percent, from VND50,000 down to VND38,000.

By the end of December 2014, BVH had replaced its Chairman and three other Board members. Mr. Dao Dinh Thi was appointed as the new Chairman of Bao Viet, and Mr. Phan Kim Bang, Ms. Than Hien Anh, and Mr. Dau Minh Lam were appointed as members of the BOD.

The market reacted negatively to these changes. On December 24, 2014, BVH closed at VND32,000, falling 4.5 percent. Foreign investors net sold more than 250,000 shares within two days of the news becoming public.

In 2014 alone, BVH has replaced five members of BOD and BOM. While the three new members of the BOD and the new CEO have worked at BVH for a long time, the Chairman has never worked at Bao Viet Holdings or in the insurance industry. He had been Deputy CEO of DATC from June, 2014, and Deputy CEO of Viglacera. At this point it is still too early to determine what the new management team brings to BVH.

## BAOVIET BUSINESS ANALYSIS

### LIFE INSURANCE – BAOVIET LIFE

#### Overview of Bao Viet Life

Established in 1996, Bao Viet Life was the first life insurance company to enter the market. After almost 20 years of development, Bao Viet Life now has a 60-branch network and more than 300 customer service centers across Vietnam, 1,627 employees, and 51,780 professional agents. After raising charter capital from VND1,500 billion (USD69.2 mn) to VND2,000 billion (USD92.3 mn) in 2013, Bao Viet Life ranked first in terms of charter capital in the life insurance industry.

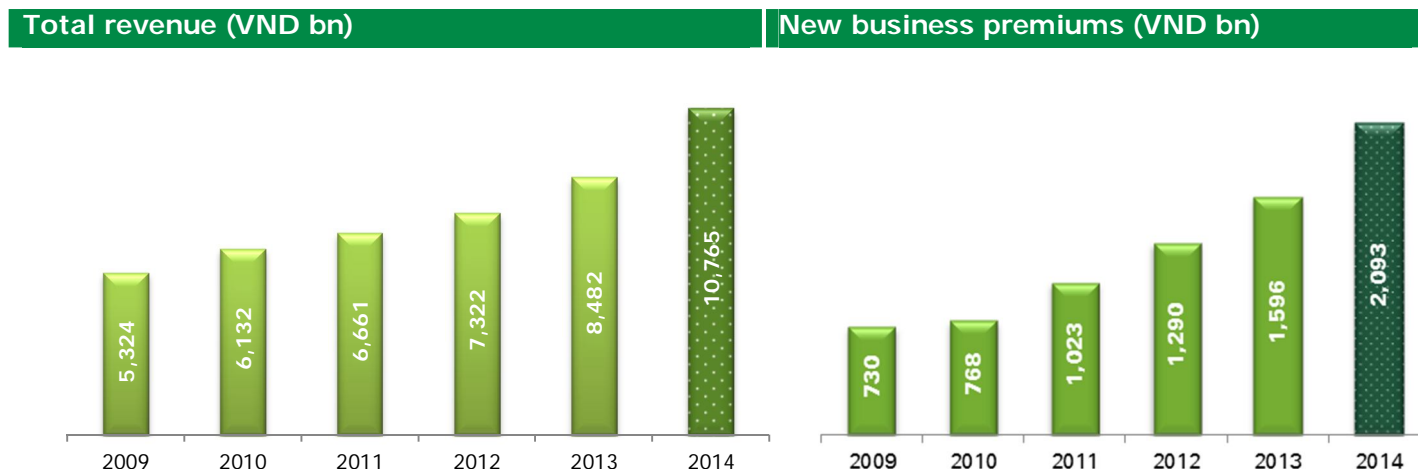
#### Bao Viet Life performance

Among all business lines at BVH, Bao Viet Life consistently contributes the highest – and growing – proportion of total revenue to the Group, from 45 percent in 2010 to 57

*Impressive growth of new premiums*

percent in 2014. In terms of PBT, Bao Viet Life has also been the largest contributor to BVH.

Baoviet Life's total revenue grew at CAGR of 15.1 percent, and new business premiums grew at CAGR of 23.4 percent during the period from 2009 to 2014.

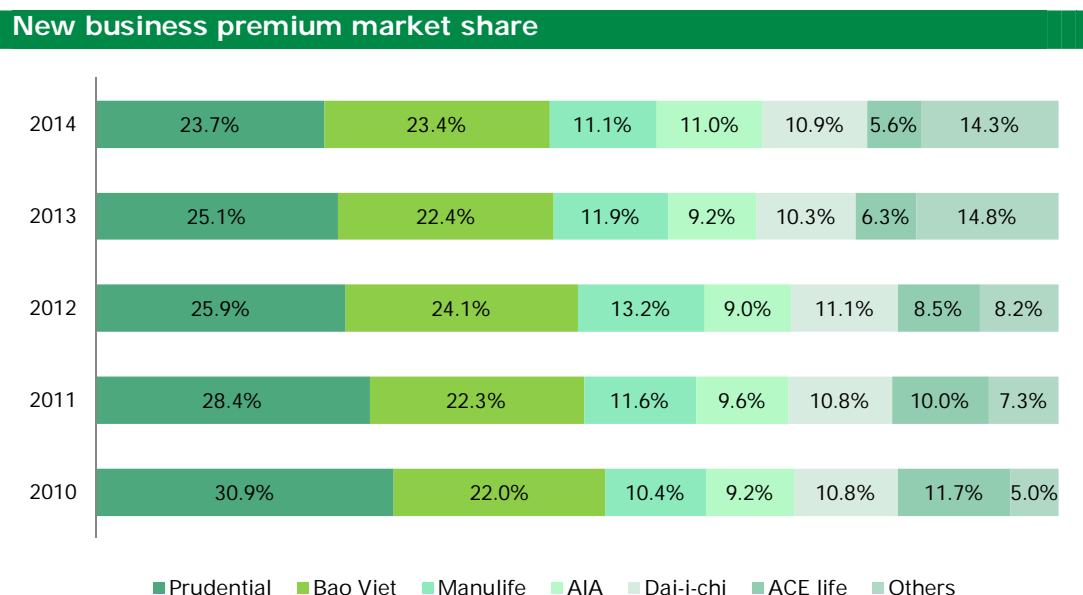


Source: Source: BVH's Annual Reports

In 2014, Bao Viet Life's revenue amounted to VND10,765 billion (USD497 mn), up 26.9 percent, of which gross premiums written reached VND7,959 billion (USD367 mn); profit after tax was VND590 billion (USD27.2 mn), up 11.4 percent. New business premiums reached VND2,093 billion (USD96.6 mn), up 31 percent, the highest growth rate among the top five. Thanks to the high growth of new business premiums, the gap between Bao Viet Life and the top player Prudential has been narrowing.

The high growth in gross life premiums in 2013 and 2014 was mainly driven by high growth in UVL and rider components, and the number of insurance agents. Bao Viet Life has repeatedly launched new '3 in 1' or '4 in 1' products, which consolidate protection, savings, and investment characteristics together, such as An Phat Hung Gia, An Phat Tron Doi, An Phuc Gia Loc, and An Phat Bao Gia. These offer a number of advantages to customers, including minimum interest rate commitments of five percent per annum, assuring customers even during market crises; providing the right to maintain the contract and the right to increase contract value by five percent per annum; flexibility to adjust the features of insurance, savings, and investment; and fees and other features to match financial capabilities and the need to protect savings in different life stages. The attractiveness of these products is that they can be used as a substitute for bank deposits, given low interest rates in 2013 and 2014. Despite the minimum guaranteed return of five percent, the actual return was much higher, reaching approximately 8.0 to 8.5 percent. The launching of the An Phuc Gia Loc product, which was customized for mature policies, has helped to increase customer renewal rates considerably. By end of Q1/2015, Bao Viet Life accounted for 29 percent market share (26.94 percent in 2014) while Prudential accounted for 29.9 percent market share (32.85 percent in 2014).

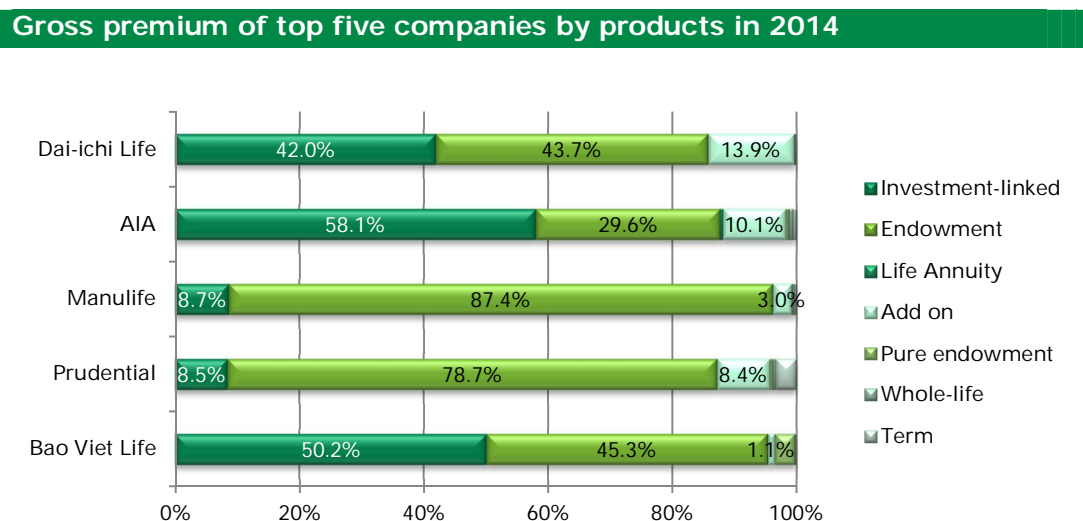
Increasing market share over time



Source: AVI

As mentioned earlier, the Vietnam life insurance market mainly focuses on two groups of products, endowment and investment-linked (UVL). The same applies to Bao Viet Life, with almost 96 percent of gross premiums coming from these two groups of products. Contrasting with Prudential and Manulife, Bao Viet Life has an almost equal share of the two, whereas Prudential and Manulife focus primarily on endowment products.

Investment linked (UVL) and endowment are key product offerings



Source: AVI

In recent years, following the industry trend, Bao Viet Life has made efforts to diversify its sales channels, developing online and bancassurance channels together with its primary sales agent channel. At the moment, Bao Viet Life is the biggest insurer in terms of number of sales agents in Vietnam.

## 2015 business plan

Although conditions for the life insurance market to grow are favorable, Bao Viet Life has set a rather safe plan for 2015.

Modest targets for 2015

- ❖ Revenue: VND11,198 billion (USD517 mn), four percent growth
- ❖ New business premiums: VND2,334 billion (USD108 mn), 11.5 percent growth
- ❖ PBT: VND811 billion (USD37.4 mn), 7.4 percent growth
- ❖ Net Income: VND630 billion (USD29.1 mn), 6.9 percent growth
- ❖ New agents: 28,000

## NON-LIFE INSURANCE – BAOVIET INSURANCE

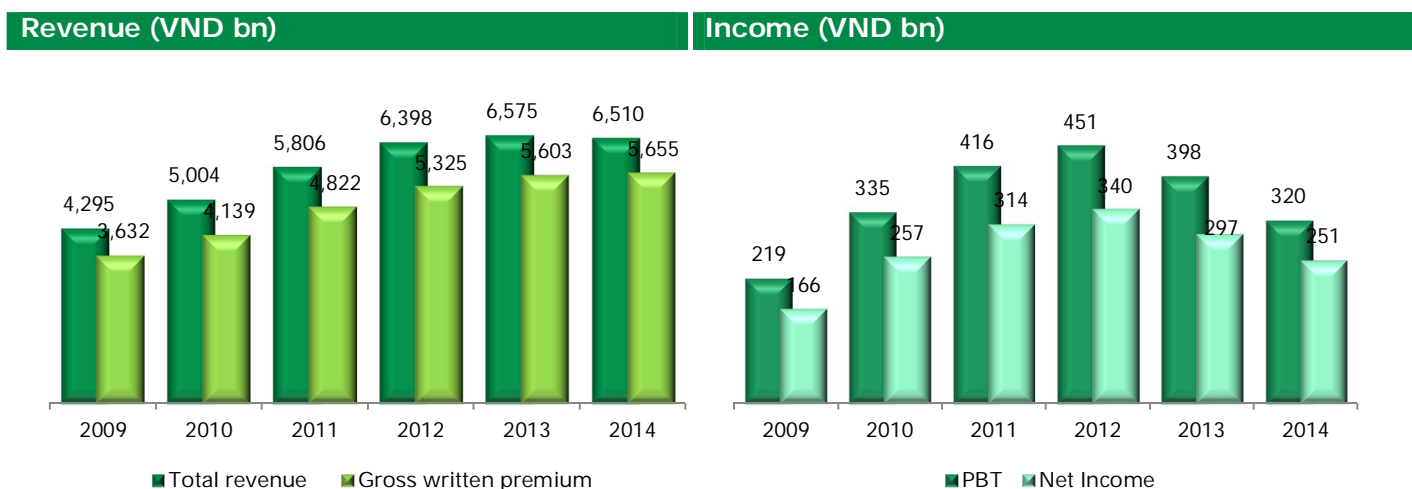
### Overview of Bao Viet Insurance

Established in 1964 as Vietnam Insurance Company, the company officially began operations in 1965. During the first nineteen years of its operation, Vietnam Insurance Company focused on providing services to SOEs in import, export, and shipping. In 1989, Vietnam Insurance Company was renamed Vietnam Insurance Corporation. In 2007, the company was renamed again to Bao Viet Insurance (BVI). In 2013, BVI increased charter capital from VND1,800 billion (USD83.1 mn) to VND2,000 billion (USD92.3 mn), and became the largest non-life insurance company in Vietnam by charter capital. By end of 2013, BVI owned 67 branches, more than 300 customer support offices, and around 3,000 employees across Vietnam. As of FY2014, BVI ranked second in terms of total premiums, with market share of 20.7 percent, losing its first ranking to PVI with 21.2 percent market share.

### Bao Viet Insurance performance

BVI is the second most important contributor to the Group's revenue. In 2014, however, this contribution decreased slightly, from 38 percent between 2011 and 2013 to 34 percent. This decline is attributed to the different growth rates of life and non-life insurance in 2014. While gross written premiums of life insurance grew at 26.2 percent, non-life insurance premiums remained constant.

*Stagnant revenue growth and declining income since 2012*



Source: BVH Annual Reports

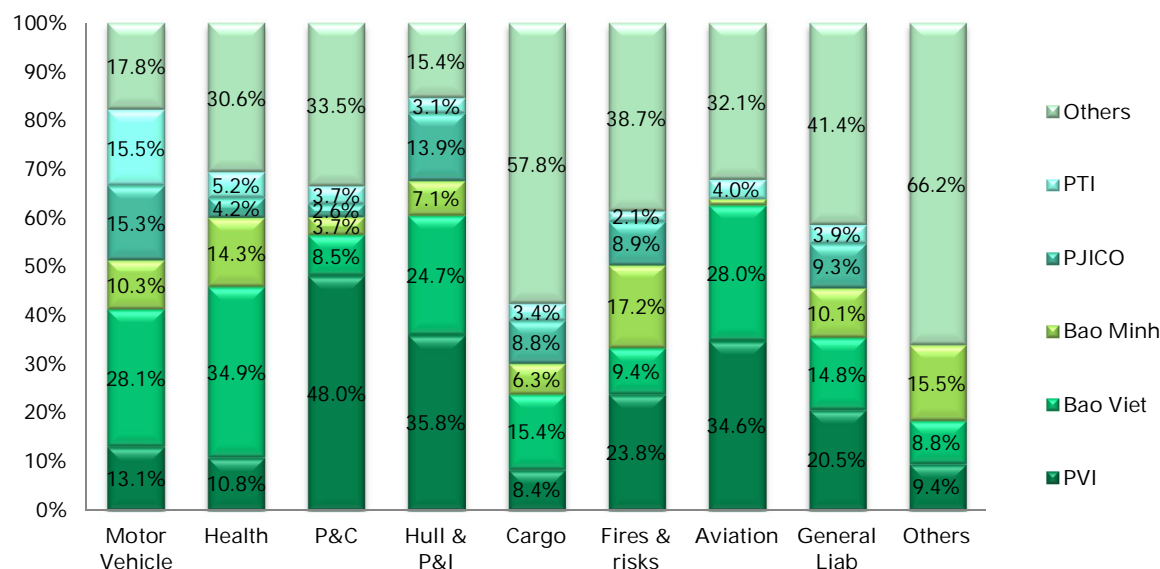
Gross written premiums grew at CAGR of 9.3 percent in the 2009-2014 period, with higher growth before 2012 and slower growth after. As the growth of premiums after 2012 slowed, PBT and net income also declined. Another factor responsible for the decline in income was the higher than average claim ratio of some products, such as motor & vehicle, and P&C insurance.

*Market share shrank, losing its long-time top position to PVI*



In 2014, for the first time, BVI lost its first rank to PVI, with a total revenue of VND6,510 billion (USD300 mn) and profit after tax of VND251 billion (USD11.6 mn). Although some areas recorded good growth, such as fire insurance and special risks (up 13.3 percent), general liability (up 8.4 percent), and voluntary health insurance (up 8.1 percent), overall revenue and gross written premiums were almost flat.

### Market share of key products in 2014



Source: AVI

Areas where BVI has real competitive advantages include motor vehicle, health, and cargo insurance with the largest market shares; and maritime (hull and protection & indemnity) and aviation with the second largest market shares. Among all product offerings, motor & vehicle and P&C insurance products have the highest claim ratio compared to the industry average. By end of 2014, the claim ratio had shown improvements, standing at 61.5 percent compared to 66.2 percent in 2013. Improving its risk management system and compensation system is a real challenge for BVI.

### 2015 business plan

Similar to Bao Viet Life, BVI also set rather modest targets for 2015:

- ❖ Revenue: VND6,768 billion (USD312 mn), 3.9 percent growth
- ❖ Gross premiums: VND6,417 billion (USD296 mn), 5.0 percent growth
- ❖ Gross written premiums: VND5,848 billion (USD270 mn), 3.4 percent growth
- ❖ PBT: VND331 billion (USD15.3 mn)
- ❖ Net Income: VND258 billion (USD11.9 mn)

## BANKING – BAOVIET BANK

### Overview of Bao Viet Bank

Established in December 2008 as a retail bank, Bao Viet Bank (BVB) has become the youngest member of Bao Viet Group as well as the Vietnamese banking system. It was established to form a strong tripod of insurance-banking-securities for the Group. The bank's founding shareholders include Bao Viet Group, Vinamilk Group,

Modest targets for 2015

BVBank is no longer a subsidiary of BVH

and CMC Group, as well as a number of other well-known Vietnamese corporations. In June 2014, the bank was approved to increase its charter capital by 73 percent to VND 5,200 billion (USD240 mn), but by the end of September 2014 it had only slightly increased from VND3,000 billion (USD138 mn) to VND3,150 billion (USD145 mn) through a private placement. This slight increase of charter capital, however, was enough to decrease Bao Viet Group's ownership of BVB from 52 percent to 49.52 percent, turning BVB from a subsidiary to an associate in the Bao Viet Group.

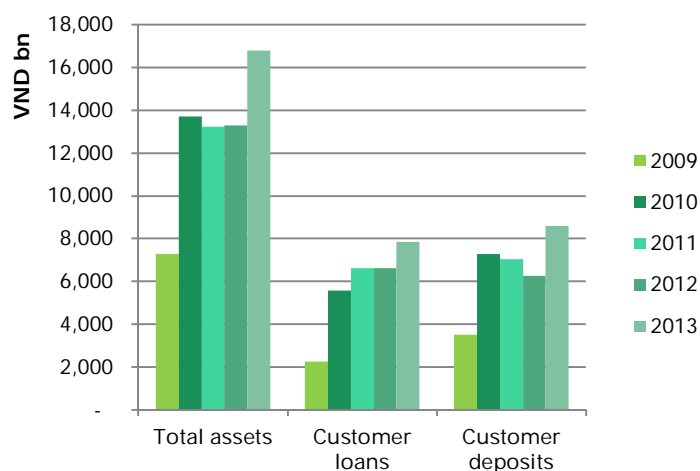
### Bao Viet Bank performance

From 2009 to 2013, as a subsidiary, BVB contributed approximately eight to 12 percent of BVH's total revenue. In 2014, as BVB was no longer accounted for as a subsidiary of BVH after September, BVB's revenue and income was consolidated to BVH following the equity method, and BVB only contributed 4.2 percent to the Group's revenue. As BVB is unlisted and is no longer a subsidiary of BVH, we do not have access to BVB's 2014 financial statement, and the level of detail of BVB's financial data is limited.

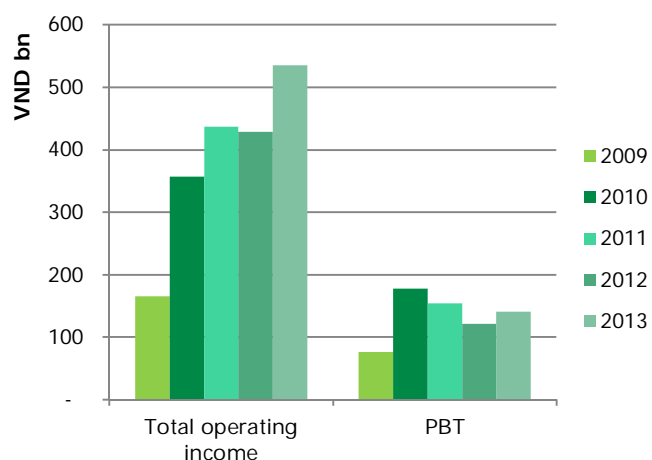
Bao Viet Bank experienced exceptional growth in 2010 shortly after its establishment; from 2010 to 2012, however, the bank's size in terms of total assets, customers loans, and deposits remained almost unchanged. The bank's income and profit before tax actually declined from 2010 to 2012.

*Reduced contribution to the Group's revenue*

#### Bao Viet Bank size growth



#### Bao Viet Bank income growth



Source: HSX, HNX

Overall, the majority of BVB's operating income was net interest income, which accounted for 90 percent in 2013 and almost 95 percent in 2014. Non-interest income, especially fees and services income, was minimal.

Though aiming to become a retail bank, BVB's retail banking contribution was insignificant, except for customer deposits which seem to have grown over time.

Bancassurance income, although increasing strongly since inception, still accounts for a minor part of the bank's operating income (4.8 percent in 2012).

Retail banking % of total (VND bn)	2009	2010	2011	2012
Deposits	11.8%	20.5%	23.9%	43.5%
Loans	19.4%	17.8%	11.2%	14.7%
Bancassurance revenue	67.3%	34.5%	18.3%	10.5%

*Struggle to grow and low profitability*

While the problem at many Vietnam commercial banks is low CAR, BVB has had a very high CAR – 42 percent in 2012 (after the bank increased charter capital from VND1,500 billion (USD69.2 mn) to VND3,000 billion (USD138 mn) and 37.3 percent in 2013. A high CAR indicates a high level of capital at a bank compared to its risk weighted assets. However, a CAR at BVB's level was too high for a normal level of banking operations, and in this case signaled BVB's inefficiency in utilizing capital. In addition, loans to deposits ratio (LDR) stayed relatively high from 2011 to 2013. Combined with the high CAR, the high LDR indicated that the bank has difficulties in both mobilizing and lending activities.

RATIOS	2009	2010	2011	2012	2013
<b>CAR</b>	35.20%	21%	22%	42%	37.30%
<b>ROA</b>	0.87%	1.27%	0.86%	0.69%	0.70%
<b>ROE</b>	4.04%	8.30%	6.96%	3.77%	3.35%
<b>LDR</b>	64.0%	76.6%	94.4%	105.5%	91.3%

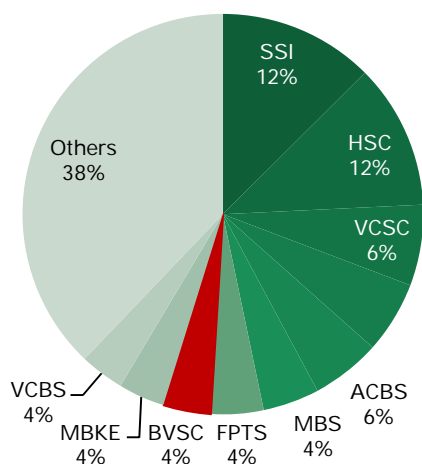
In terms of profitability, BVB had higher ROA and lower ROE compared to its JSCB peers (ROA of 0.31 percent and ROE of 3.60 percent in 2013).

## **FINANCIAL SERVICES & OTHERS**

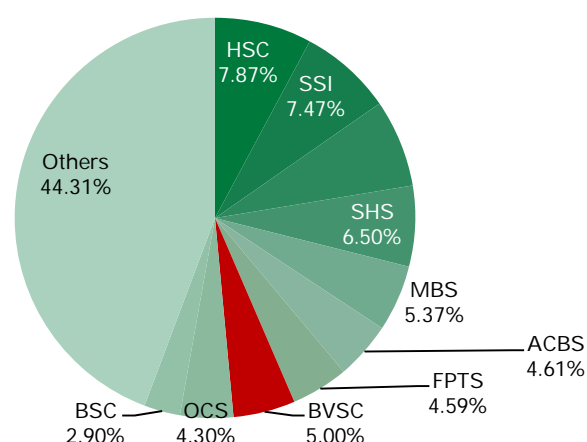
### **Securities brokerage – BVSC**

Established in 1999, Bao Viet Securities JSC was the first and one of the leading securities companies in Vietnam. BVSC was always among the top 10 securities companies by brokerage market share on both HSX and HNX. Moreover, BVSC was in the top three bond brokerage houses in the market. In 2014, BVSC ranked eighth on both HSX and HNX in terms of brokerage market share for stock and fund certificates.

HSX brokerage market share 2014



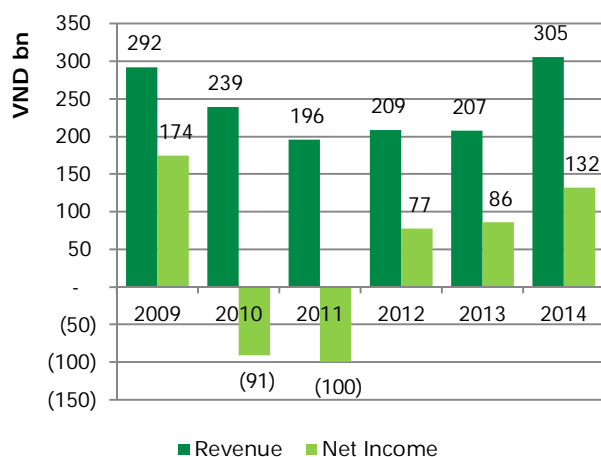
HNX brokerage market share 2014



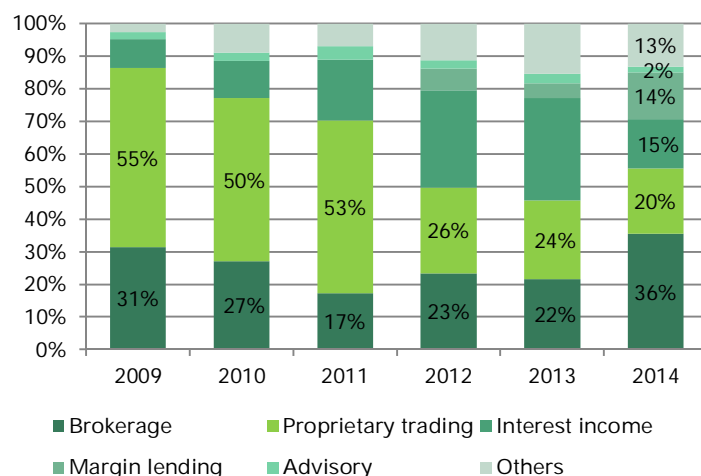
Source: HSX, HNX

Following the trend of the securities industry, BVSC's revenue dipped from 2010 to 2013 and started to recover in 2014 with strong growth in brokerage revenue. In the past, BVSC seemed more focused on proprietary trading, which contributed over 50 percent of total revenue from 2009 to 2011. Since 2012, proprietary trading has only accounted for half of what it had previously, and has been gradually declining. In 2014, for the first time, brokerage took proprietary trading's place as the largest revenue contributor, providing 36 percent of total revenue. Another trend we observed is the increasing importance of margin lending components while interest income has decreased substantially due to lower interest rates in 2014.

BVS revenue and net income



BVS revenue breakdown



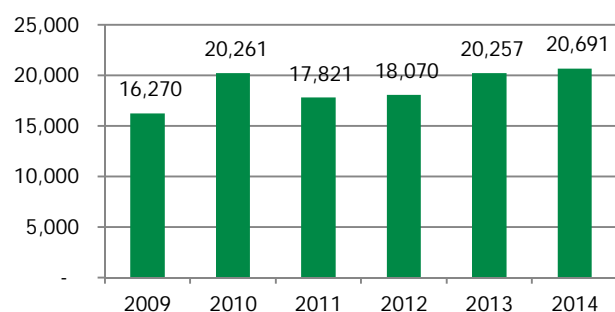
Source: HSX, HNX

In its 2015 business plan, BVSC set targets of VND299 billion (USD13.8 mn) in revenue and VND120 billion (USD5.6 mn) in PBT, and aims to maintain its top ten position in brokerage market share.

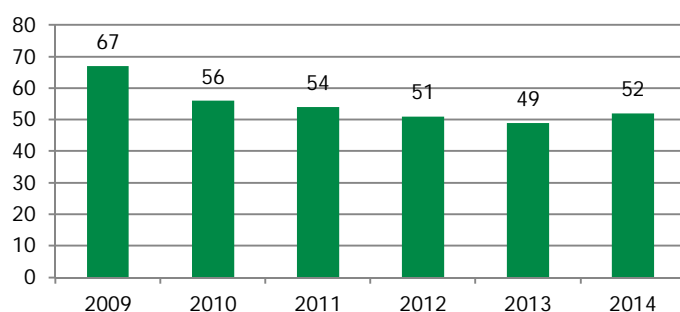
### Fund management – Bao Viet Fund (BVF)

Established in 2005, Bao Viet Fund is a wholly-owned subsidiary of Bao Viet Holdings. BVF currently manages five portfolios and one open-ended fund – Bao Viet Equity Dynamic (BVFED) – which was established in 2013. Being among the largest funds in terms of AUM, it is worth noting that most of the AUM of BVF come from BVL and BVI. Given the majority of AUM are within the group itself, BVF's revenue appears quite insignificant.

#### BVF Assets Under Management (VND bn)



#### BVF Revenue (VND bn)



Source: BVH's FS

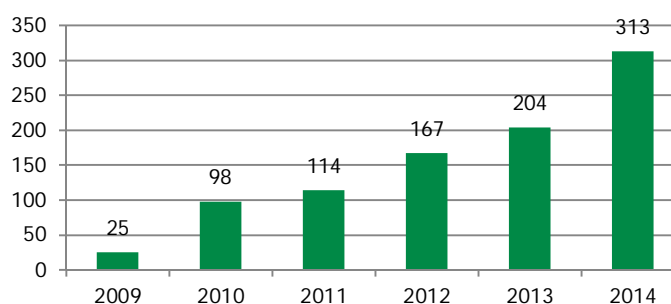
In 2014, fund management business results recorded minor growth with total assets under management by the end of 2014 reaching VND20,691 billion (USD955 mn), up 2.2 percent y-o-y. Revenue in 2014 reached VND52 billion (USD2.4 mn), and net profit was VND12 billion (USD0.55 mn), fulfilling only 75.6 percent of the full year target.

In its 2015 business plan, BVF aims to grow its AUM by eight to ten percent in 2015, with VND49 billion (USD2.3 mn) of revenue and VND15 billion (USD0.69 mn) of PBT.

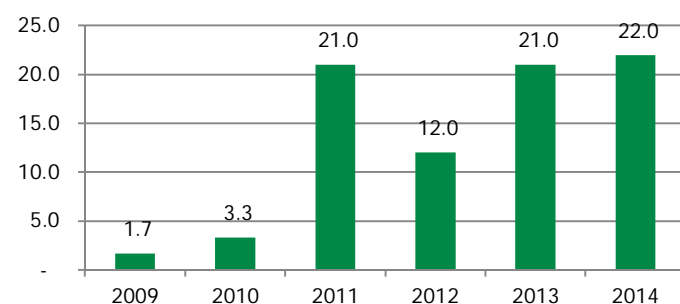
### Investment – Bao Viet Invest

Bao Viet Invest was established in 2009 with initial charter capital of VND100 billion (USD4.6 mn). As of FY2014, the charter capital of Bao Viet Invest was VND110 billion (USD5.1 mn) and BVH owns 55 percent of this subsidiary. Bao Viet Invest operates in property investment, trading, and supporting services.

#### Bao Viet Invest revenue (VND bn)



#### Bao Viet Invest PBT (VND bn)



Source: BVH's FS

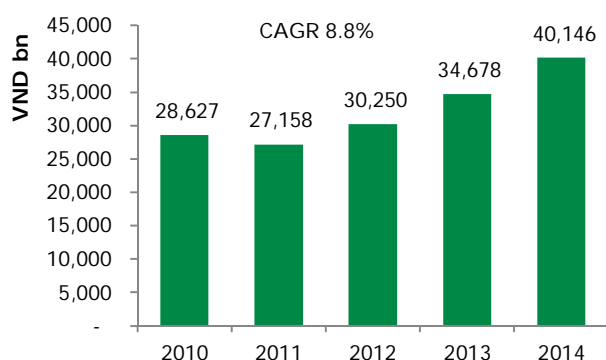
Due to its relatively small size, and with no particular competitive edge in its field, although it has experienced good growth in revenue since establishment, Bao Viet Invest's income has been unstable and insignificant to the Group.

For 2015, Bao Viet Invest set a target for revenue of VND288 billion (USD13.3 mn), a drop of eight percent, and PBT of VND22.6 billion (USD1.04 mn), an increase of 2.5 percent compared to 2014.

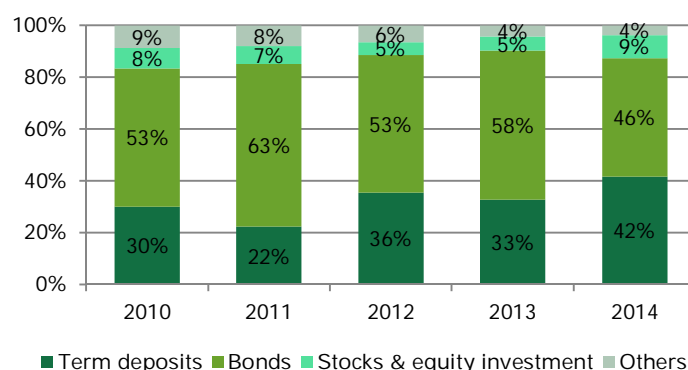
### FINANCIAL INVESTMENT

Investment allocation focuses on fixed income instruments, accounting for approximately 90 percent. The remainder is allocated to equity securities and equity capital contributions. In terms of maturity, on average 65 percent of investment assets are long term and 35 percent are short term. This term structure has remained quite stable over the last five years.

#### Investment growth



#### Investment breakdown



Source: BVH's FS

With the majority of assets in fixed income instruments, financial income is very much dependent on interest rates. Since 2011, the interest rate for term deposits has declined substantially, from an average of 19.9 percent in 2011 to 9.1 percent in 2014. The bond yields earned, on the other hand, have showed more fluctuation. While in general government bond yields have declined an average of 200 basis points across all maturities in 2014, the bond yields that Bao Viet Group earned actually increased by 190 basis points. It appears that Bao Viet lengthened the term of its bond investment portfolio in 2014.

### CONSOLIDATION

#### Revenue and PBT breakdown by business activities

BVH's revenue and PBT breakdown based on business activities is slightly different to the breakdown by business structure usually presented in the company annual report.



*Financial income is the primary contributor to the Group's PBT*

	2010	2011	2012	2013	2014
Revenue contribution					
Life	34.8%	33.4%	36.2%	40.5%	44.7%
Non-life	27.7%	28.4%	29.6%	29.9%	27.2%
Banking	8.3%	12.8%	10.6%	7.8%	4.2%
Other financial services	1.7%	1.0%	1.4%	1.4%	2.1%
Financial income	26.8%	23.8%	21.4%	20.1%	20.7%
Others	0.7%	0.7%	0.9%	0.4%	1.0%
PBT contribution					
Life	-44%	-23%	-44%	-52%	-78%
Non-life	7%	9%	6%	4%	0%
Banking	22%	29%	21%	16%	5%
Other financial services	3%	-1%	0%	1%	4%
Financial income	126%	97%	125%	146%	176%
Others	-13%	-10%	-8%	-15%	-7%

It is usual for insurance companies to have very low or even negative profit margin on their core insurance business. Looking at BVH's breakdown by business activities, we see that life and non-life insurance, although contributing the most to the Group's revenue, had negative or little contribution to the Group's PBT. What made up for the loss in insurance business is the income from financial investment activities, which was the income from investing idle cash from insurance premiums after reserves. Financial income has consistently contributed the most to BVH's PBT, and covered the losses from other business activities.

### Group's 2015 business plan

In the 2015 AGM, BVH set out the following modest targets for the whole Group for 2015.

	2015 Target (VND bn)	y-o-y growth
Revenues	18,910	-0.7%
Net income	1.140	-14.4%
Dividend rate	10%	

Explaining 2015's lower revenue and net income targets, BVH offered the following rationales:

- ❖ In 2015, the Group will no longer consolidate Baoviet Bank into the Group, and only record the share of profit from associates following the equity method. In addition, the Group will continue to reduce its ownership at Baoviet Bank, hence income from banking services will be reduced. This is primarily an accounting change. The Group's holdings of Baoviet Bank will only decline slightly – from 52 percent to 49.5 percent.
- ❖ Interest rates will remain at lower levels in 2015, therefore financial income from investing in Treasury bonds and depositing at banks is expected to be lower than in 2014.
- ❖ Changes in accounting methods according to Circular 200/2014 will lead to increases in expenses.

- ❖ The stock market is forecast to remain stagnant or grow marginally, leading to lower investment income.
- ❖ From 2015, Bao Viet will follow a more conservative investment approach, therefore lower investment income is expected. However, with a conservative approach, Bao Viet's financial safety and capability will be strengthened.

Regarding the plan to find a strategic partner to raise capital, set out in 2014 and targeted for completion by March 2015, BVH's BOD clarified that although there has been a delay from the original plan, it is continuing and is expected to be completed between June and August 2015. At present the partner is doing due diligence and valuation of BVH. The original capital raising plan was approved in 2014's AGM, with the following details: issuance of 40 to 615 million common shares (5.87 percent to 9.03 percent increase), raising VND400 to VND615 billion (USD18.5 mn to USD28.4 mn) charter capital.

## FINANCIAL RATIOS

RATIOS	2010	2011	2012	2013	2014
<b>Liquidity</b>					
Current ratio	3.89	5.71	6.51	5.35	3.36
Cash ratio	0.94	1.41	1.07	1.27	0.23
<b>Leverage</b>					
Total debt to asset	0.73	0.70	0.69	0.74	0.73
Financial debt to asset	0.04	0.02	0.02	0.00	0.00
<b>Profitability</b>					
Operating profit margin	-3.49%	0.04%	-3.86%	-4.95%	-10.70%
Net profit margin	8.51%	8.81%	9.83%	7.82%	7.49%
ROA	2.24%	2.76%	3.10%	2.24%	2.80%
ROE	9.40%	10.31%	11.81%	10.18%	10.87%

Overall, BVH has high liquidity, stable leverage, and rather modest profitability. Total debt to asset ratio was relatively high, however insurance reserves (operating liabilities) made up the largest portion of liabilities and the actual financial debt of BVH was very low. In fact, in 2013 and 2014, BVH did not have any financial debt.

BVH has a negative operating profit margin. As explained earlier, it is usual for an insurance company to have low or negative margin on the core insurance business, making up for the negative margin with profit from financial investment activities. Hence overall BVH has recorded a positive net profit margin. From 2012 to 2014, the net profit margin was on a declining trend; ROA and ROE was not impressive but quite steady.

## VALUATION & RECOMMENDATION

### FORECAST & ASSUMPTIONS

We make the following key assumptions regarding revenue growth and expenses ratio of each division and business activity of Bao Viet Group:

ASSUMPTIONS	2013	2014	2015F	2016F	2017F	2018F	2019F
<b>REVENUE</b>							
<b>Operating revenue</b>	<b>10.6%</b>	<b>12.7%</b>	<b>5.6%</b>	<b>8.8%</b>	<b>9.8%</b>	<b>10.2%</b>	<b>10.2%</b>
Gross life premium growth	21.3%	26.2%	20.0%	18.0%	15.0%	14%	13.5%
Industry growth	23.1%	21.9%	15.0%	14.0%	13.5%	13.0%	12.5%
Gross non-life premium growth	5.4%	-0.3%	7.0%	7.0%	7.0%	7.0%	7.0%
Industry growth	7.0%	11.8%	10.0%	9.5%	9.0%	8.5%	8.0%
Other insurance income	-46.9%	63.4%	7.5%	8.5%	5.0%	5.0%	5.0%
Banking	-20.4%	-37.7%	-30.0%	-10.0%	5.0%	5.0%	5.0%
Other financial services	7.2%	77.4%	-20.0%	10.0%	10.0%	10.0%	10.0%
<b>Other income</b>	<b>0.0%</b>	<b>21.0%</b>					
Financial investment yield	9.9%	10.1%	9.5%	9.0%	9.0%	9.0%	9.0%
Other income growth	-75.1%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Share profit from associates and JV growth	-36.3%	369.8%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>TOTAL REVENUE GROWTH</b>	<b>8.3%</b>	<b>14.4%</b>	<b>4.4%</b>	<b>7.0%</b>	<b>7.9%</b>	<b>8.3%</b>	<b>8.5%</b>
<b>EXPENSES/REVENUE</b>							
<b>Life</b>	<b>-113.4%</b>	<b>-115.9%</b>	<b>-109.5%</b>	<b>-107.0%</b>	<b>-104.5%</b>	<b>-102.0%</b>	<b>-102.0%</b>
Claim & direct insurance expense/revenue	-95.4%	-104.3%	-97.5%	-95.0%	-92.5%	-90.0%	-90.0%
Sales & GA expenses	-18.0%	-11.7%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%
<b>Non-life:</b>	<b>-98.6%</b>	<b>-99.9%</b>	<b>-110.0%</b>	<b>-108.0%</b>	<b>-107.0%</b>	<b>-103.0%</b>	<b>-100.0%</b>
Claim & direct insurance expense	-68.7%	-88.2%	-85.0%	-82.0%	-80.0%	-75.0%	-70.0%
Sales & GA expenses	-29.9%	-11.7%	-25.0%	-26.0%	-27.0%	-28.0%	-30.0%
<b>Banking:</b>	<b>-78.6%</b>	<b>-89.5%</b>	<b>-90.0%</b>	<b>-85.0%</b>	<b>-80.0%</b>	<b>-75.0%</b>	<b>-75.0%</b>
<b>Other financial services:</b>	<b>-94.1%</b>	<b>-82.2%</b>	<b>-90.0%</b>	<b>-90.0%</b>	<b>-85.0%</b>	<b>-85.0%</b>	<b>-85.0%</b>
<b>Financial expense</b>	<b>-23.5%</b>	<b>-22.4%</b>	<b>-25.0%</b>	<b>-25.0%</b>	<b>-25.0%</b>	<b>-25.0%</b>	<b>-25.0%</b>
Other operating expenses	-41.3%	-35.7%	-40.0%	-40.0%	-40.0%	-40.0%	-40.0%
G&A expense	-1.9%	-1.6%	-1.8%	-1.8%	-1.8%	-1.8%	-1.8%
<b>TOTAL EXPENSES</b>	<b>-89.5%</b>	<b>-90.9%</b>	<b>-92.8%</b>	<b>-92.1%</b>	<b>-91.5%</b>	<b>-90.2%</b>	<b>-90.4%</b>
<b>Profit margin</b>	<b>10.5%</b>	<b>9.1%</b>	<b>7.2%</b>	<b>7.9%</b>	<b>8.5%</b>	<b>9.8%</b>	<b>9.6%</b>

#### Life insurance:

- ❖ Gross premium is expected to grow 20 percent in 2015. Despite the Group's conservative target for new business premiums growth of 11.2 percent in 2015, we expect a higher growth based on:
  - High insurance industry premiums growth of 16.7 percent y-o-y in 1H2015,
  - BVL's gross premium growth of 13.7 percent y-o-y in Q1/2015, given the first quarter is usually a warm-up period

New business premiums of UVL products in the market have maintained high growth over the past five years due to customers' preference over bank deposits as an effective investment channel. UVL revenue's contribution to BVH's gross premiums is on a rising path, and we expect this segment to boost BVH's revenue in the next five years. In 2015, BVH plans to recruit an additional 28,000 sales agents for both life and non-life segments, which will certainly help with

revenue growth. Despite the fact that BVH is preparing for pension products to be launched in Q3/2015, expected to be a boon for future insurance market growth, the company has not yet launched the products, and even once launched they will take a few years to develop and yield decent returns. For the next few years, based on BMI forecasts (2016: 13.6 percent, 2017: 13.2 percent, 2018: 13.2 percent) and our adjustments, we expect gross premiums to increase 13 to 18 percent per year.

- ❖ Claims and direct insurance expenses are forecast to decrease gradually, from 97.5 percent of revenue in 2015 to 90 percent in 2019 as we expect BVH to have better cost control over time.

Non-life insurance:

- ❖ Gross premiums are expected to grow 7.0 percent, based on BVH's stated target for the year. For the next few years, based on BMI forecasts (2016: 12.8 percent, 2017: 12.2 percent, 2018: 12.0 percent) and our adjustments, we expect gross premiums to increase seven percent per year.
- ❖ Claims and direct insurance expenses are forecast to decrease gradually, from 85 percent of revenue in 2015 to 70 percent in 2019, as we expect BVH to have better cost control over time.
- ❖ G&A expenses for non-life insurance business, on the other hand, is expected to increase over time as more competition among the domestic field will push sales costs higher.

Banking:

- ❖ Banking revenue has been on a declining trend since 2012, particularly as the banking revenue and profit recorded in the Group's 2014 financial statement included full results of BVB's 1H2014 but only part (49.5 percent) of BVB's 2H2014. Going forward, the BVB business results will be consolidated into the Group financial statement following the equity method, and the Group's ownership of BVB is likely to be further reduced in the future. Having said that, we forecast BVB's revenue growth to decline 30 percent in 2015 and decline a further 10 percent in 2016. From 2017 to 2019, with the recovery of the economy and banking sector, BVB's revenue may grow modestly by five percent per year.
- ❖ Banking expenses, including all interest expenses, operating expenses, and credit loss provision expenses, are estimated to account for 90 percent of banking revenue in 2015, similar to the level of 2014. Going forward, this cost ratio is expected to decline gradually to 75 percent in 2019 as provision expenses for credit losses are likely to decrease from 2016.

Other financial services (investment banking activities & real estate investment):

- ❖ Other financial services revenue surged in 2014, coming mainly from BVSC, as the stock market had quite a good year with market trading volume more than double the level of 2013. However, the forecast for 2015 is not as bright, and so we estimate that other financial services revenue will fall 20 percent in 2015. From 2016 to 2019, a modest growth of 10 percent y-o-y is applied.

### Financial investment:

- ❖ In order to forecast financial income, we forecast the growth of the investment portfolio and the yield earned thereon. The growth of the investment portfolio is estimated to equal the growth of total insurance premiums (life and non-life), given that the Group can invest the idle premium cash after making all necessary reserves. With the majority of the investment portfolio in term deposits and Treasury bonds, we estimate the yield earned on the Group's investment portfolio to be 9.3 percent in 2015, and to stay at 9.0 percent from 2016 to 2019.

## **VALUATION & RECOMMENDATION**

We use a combination of the residual income, P/E, and P/B methods to value BVH's shares with a heavy weight towards the P/B method.

### Residual income

The residual income method suggests a fair price of **VND20,094** per share for BVH stock, and incorporates the following inputs:

- ❖ The *risk-free rate* is taken from the yield of the 5-year local currency Government bond yield, which is equivalent to 6.40 percent.
- ❖ The *expected market premium* is 8.55 percent.
- ❖ BVH's *adjusted beta* is estimated to be 1.13.
- ❖ Cost of equity is estimated to be 16.09 percent by using the capital asset pricing model (CAPM).
- ❖ BVH's *terminal growth rate* of residual income is estimated to be 5.00 percent.

RESIDUAL INCOME VALUATION	2015F	2016F	2017F	2018F	2019F
NI to shareholders	1,180,171	1,537,684	2,018,560	2,719,836	3,154,083
Shareholders' Equity	12,243,493	13,021,040	13,724,292	14,728,012	16,532,581
Capital Charge	1,969,978	2,095,085	2,208,239	2,369,737	2,660,092
Residual Net Income	(789,807)	(557,401)	(189,679)	350,099	493,991
Terminal value of Residual income					4,677,103
Present Value Factor	0.86	0.74	0.64	0.55	0.47
PV Residual Net Income	(680,340)	(413,598)	(121,237)	192,757	2,452,497
Total Projected EVA	1,430,079				
Current Book Value Equity	12,243,493				
Value of Equity	13,673,572				
Number of Shares (mn)	680.5				
<b>Share Value (VND)</b>	<b>20,094</b>				

### Market-based valuation

As BVH is a well-diversified financial group with a primary focus on both life and non-life insurance business, it is difficult to find a relevant peer group if we only look at the domestic market. Currently there are five listed insurers on the exchanges; however, they are much smaller in size and they are primarily in non-life insurance. Therefore, we look at both domestic and regional peers to estimate justified P/E and P/B for BVH. On a relative basis, at present, BVH is trading at a premium compared to

both domestic and regional peers. Specifically, BVH's relative P/E is 2.39x while domestic peers' relative P/E is 1.03x and regional peers' relative P/E is 0.86.

In the domestic market, BVH's trading premium can be somewhat explained by its large size and higher ROE. There is no domestic insurance firm that is comparable to BVH, as all are on a much smaller scale and focus on the non-life insurance segment. Consequently we multiply the regional relative multiples and VN-Index multiples to get BVH's justified multiples, with which the P/E method yields a target price of **VND19,035** the P/B method yields a target price of **VND37,863**.

P/E valuation	
BVH current P/E	31.5
Regional peers P/E	18.0
Justified P/E	11.2
BVH 2015's EPS	1,692
<b>Target price</b>	<b>19,035</b>

P/B valuation	
BVH current P/B	3.09
Regional peers P/B	2.42
Justified P/B	2.08
BVH 2015's BVPS	18,224
<b>Target price</b>	<b>37,863</b>

### Long-term valuation summary

Taking the three valuation approaches above into consideration, we consider the fair price of BVH's shares to be **VND30,500**, which is 46.4 percent lower than the current market price of VND57,000. Combined with an expected dividend of VND1,000 for 2015, yielding 1.8 percent on the current stock price, the one year total expected return for holding BVH is negative -44.7 percent. Although the valuation does not appear attractive, BVH is one of the leading stocks on the exchange, it holds a superior position compared to peers, it is in ETF portfolios, and its 52 week high/low is **VND67,500/29,600**; at the time of issuing this report, we believe BVH shares are fully-valued for a one-year investment horizon. The recent surge in price of 75 percent over a one month time frame can be mostly explained by the following:

- ❖ Samsung Life met with Vietnam's Deputy Prime Minister and Deputy Minister of MoF to discuss investment opportunities in Vietnam. The giant revealed its interest in becoming a strategic partner of BVH, and in particular Bao Viet Life (BVL) when it is equitized. However, BVL already has a Japanese strategic shareholder, Sumitomo, so it is unlikely the deal with Samsung Life will happen.
- ❖ Currently, foreign investors account for 24.6 percent of BVH's shareholdings; once FOL for the insurance industry is lifted, BVH will rise in the eyes of foreign investors.
- ❖ Vietnam's stock market has recently been highly valued by foreign investors, with positive sentiment igniting strong buying. Foreign investors have likely opted for industry blue chips, and BVH is considered to be the leading Vietnamese insurance company at present.

Combined valuation		
Method	Target price	Weight
Residual income	20,094	20%
P/E	19,035	20%
P/B	37,863	60%
<b>Weighted average target price</b>	<b>30,543</b>	



## TECHNICAL ANALYSIS

BVH witnessed a strong uptrend recently as its price soared by more than 80 percent during only one month. However, the rally momentum has been weakening since it approached the resistance level at 70,000.

We find the Sell signals generated from several indicators, such as the MA5, MFI(14), CCI(14)..., which are the first signs of weakness of the current bullish trend. Therefore, we expect a correction of this ticker so that it could decline to test its MA20 support level, which is now at 52,000.

Accordingly, we recommend a **SELL** for BVH.

Ticker	BVH
Horizon analytic	3 to 6 months
3 months highest price	67,500
3 months lowest price	31,600
Current MA50 days	42,500
Current MA100 days	37,500
Mid-term resistance level	70,000
Mid-term support level	42,500
<b>Recommendation</b>	<b>SELL</b>

Unit: VND/share

### BVH stock price



Source: VPBS

## APPENDIX

INCOME STATEMENT (VND bn)	2013	2014	2015	2016	2017	2018	2019
<b>REVENUE</b>							
Life premium before reserves	6,300	7,954	8,869	9,933	11,125	12,461	13,956
Non-life premium before reserves	4,646	4,848	5,013	5,264	5,579	5,970	6,388
Other insurance income	9	15	16	17	18	19	20
Banking	1,213	756	529	476	500	525	552
Other financial services	215	381	305	335	369	406	446
Financial income	3,129	3,680	3,959	4,085	4,468	4,906	5,391
Other income	31	21	21	21	21	21	21
Share profit from associates and JV	32	148	148	148	148	148	148
<b>TOTAL REVENUE</b>	<b>15,575</b>	<b>17,804</b>	<b>18,860</b>	<b>20,281</b>	<b>22,230</b>	<b>24,456</b>	<b>26,922</b>
<b>EXPENSES</b>							
Life:	(7,146)	(9,222)	(9,712)	(10,629)	(11,626)	(12,710)	(14,235)
Claim & Direct insurance expense	(6,010)	(8,293)	(8,647)	(9,437)	(10,291)	(11,214)	(12,560)
Sales & GA expenses	(1,136)	(929)	(1,064)	(1,192)	(1,335)	(1,495)	(1,675)
Non-life:	(4,582)	(4,842)	(5,514)	(5,685)	(5,970)	(6,149)	(6,388)
Claim & Direct insurance expense	(3,192)	(4,277)	(4,261)	(4,316)	(4,463)	(4,477)	(4,471)
Sales & GA expenses	(1,390)	(565)	(1,253)	(1,369)	(1,506)	(1,672)	(1,916)
Banking	(953)	(677)	(476)	(405)	(400)	(394)	(414)
Other financial services expenses	(202)	(313)	(274)	(302)	(314)	(345)	(379)
Financial investment expense	(735)	(823)	(990)	(1,021)	(1,117)	(1,227)	(1,348)
Other operating expenses	(6)	(5)	(8)	(8)	(8)	(8)	(8)
G&A expense	(297)	(293)	(339)	(365)	(400)	(440)	(485)
<b>TOTAL EXPENSES</b>	<b>(13,921)</b>	<b>(16,176)</b>	<b>(17,314)</b>	<b>(18,415)</b>	<b>(19,835)</b>	<b>(21,273)</b>	<b>(23,257)</b>
<b>PBT</b>	<b>1,654</b>	<b>1,627</b>	<b>1,546</b>	<b>1,866</b>	<b>2,394</b>	<b>3,183</b>	<b>3,666</b>
Tax expense	(413)	(288)	(309)	(373)	(479)	(637)	(733)
<b>NI</b>	<b>1,234</b>	<b>1,331</b>	<b>1,237</b>	<b>1,492</b>	<b>1,915</b>	<b>2,547</b>	<b>2,932</b>
% deduction	7.82%	5.46%	5.0%	5.0%	5.0%	5.0%	5.0%
NI to shareholders	1,138	1,259	1,175	1,418	1,820	2,419	2,786
<b>EPS (VND)</b>	<b>1,672</b>	<b>1,850</b>	<b>1,644</b>	<b>1,984</b>	<b>2,547</b>	<b>3,225</b>	<b>3,713</b>
<b>DPS (VND)</b>	<b>1,200</b>	<b>1,200</b>	<b>1,000</b>	<b>1,000</b>	<b>1,200</b>	<b>1,500</b>	<b>1,500</b>

## BAO VIET HOLDINGS GROUP (HSX - BVH)

BALANCE SHEET (VND bn)	2013	2014	2015	2016	2017	2018	2019
<b>CURRENT ASSETS</b>	<b>31,468</b>	<b>20,409</b>	<b>23,463</b>	<b>25,403</b>	<b>27,905</b>	<b>31,402</b>	<b>35,080</b>
Cash & equivalent	7,318	1,425	1,954	1,718	1,621	2,113	2,418
Short-term investment	10,996	13,518	14,886	16,578	18,550	20,848	23,444
Account receivable	3,685	3,678	4,715	5,070	5,557	6,114	6,731
Inventories	163	176	193	213	234	257	283
Other current assets	135	439	483	532	585	643	708
Reinsured asset	1,284	1,173	1,231	1,293	1,358	1,425	1,497
Loans to customers	7,886	-	-	-	-	-	-
<b>NON-CURRENT ASSETS</b>	<b>24,197</b>	<b>27,160</b>	<b>26,914</b>	<b>28,950</b>	<b>31,242</b>	<b>33,818</b>	<b>36,620</b>
Fixed assets & investment properties	1,972	1,944	-	-	-	-	-
Long term investments	22,116	25,091	26,783	28,812	31,098	33,667	36,461
Other LT assets	110	125	131	137	144	152	159
<b>TOTAL ASSETS</b>	<b>55,665</b>	<b>47,568</b>	<b>50,377</b>	<b>54,353</b>	<b>59,147</b>	<b>65,220</b>	<b>71,700</b>
<b>LIABILITIES</b>	<b>41,450</b>	<b>34,752</b>	<b>36,776</b>	<b>40,147</b>	<b>44,109</b>	<b>48,642</b>	<b>53,667</b>
Current liabilities	5,657	6,080	5,658	6,084	6,669	7,337	8,077
Amount due to customers	11,552	-	-	-	-	-	-
Non-current liabilities	49	61	94	101	111	122	135
Reserves	24,192	28,611	31,023	33,962	37,329	41,183	45,456
<b>EQUITY</b>	<b>12,125</b>	<b>12,243</b>	<b>13,016</b>	<b>13,609</b>	<b>14,429</b>	<b>15,957</b>	<b>17,400</b>
Contributed capital	6,805	6,805	7,145	7,145	7,145	7,502	7,502
Share premium	3,184	3,184	3,248	3,248	3,248	3,313	3,313
Funds & reserves	383	387	437	497	573	675	792
Undistributed earnings	1,754	1,867	2,186	2,719	3,463	4,467	5,793
<b>MINORITY INTERESTS</b>	<b>2,090</b>	<b>573</b>	<b>585</b>	<b>596</b>	<b>608</b>	<b>621</b>	<b>633</b>
<b>TOTAL LIABILITIES &amp; EQUITY &amp; MINORITY INTERESTS</b>	<b>55,665</b>	<b>47,568</b>	<b>50,377</b>	<b>54,353</b>	<b>59,147</b>	<b>65,220</b>	<b>71,700</b>

**PEERS ANALYSIS**

Name	Country	Ticker	Mkt Cap (VND bn)	P/B (x)	P/E (x)	Rel P/E	Rel P/B	ROA	ROE
SINAR MAS MULTIARTHA PT	Indonesia	SMMA IJ	50,717,350	2.38	33.84	n/a	1.00	1.77	7.31
MAX INDIA LTD	India	MAX IN	49,211,667	4.36	51.24	2.26	1.40	0.87	8.90
LPI CAPITAL BERHAD	Malaysia	LPI MK	27,392,111	2.94	14.73	0.87	1.51	8.49	18.39
BANGKOK INSURANCE PCL	Thailand	BKI TB	24,766,738	1.40	16.97	0.86	0.70	4.42	9.29
SYARIKAT TAKAFUL MALAYSIA	Malaysia	STMB MK	17,746,063	5.31	20.40	1.20	2.73	1.99	24.33
PANIN FINANCIAL TBK PT	Indonesia	PNLF IJ	13,903,214	0.64	6.24	n/a	0.27	7.25	10.33
ALLIANZ MALAYSIA BHD	Malaysia	ALLZ MK	11,054,755	0.87	6.56	0.39	0.45	2.36	13.71
CNINSURE INC-ADR	China	CISG US	8,335,358	0.65	14.43	0.77	0.23	4.12	4.81
ASURANSI BINA DANA ARTA	Indonesia	ABDA IJ	7,798,469	4.47	29.39	n/a	1.87	6.49	16.20
SYN MUN KONG INSURANCE PCL	Thailand	SMK TB	7,428,534	2.72	11.09	0.56	1.36	7.49	26.72
DHIPAYA INSURANCE PUB CO LTD	Thailand	TIP TB	7,083,094	2.10	8.30	0.42	1.05	1.85	27.25
MPHB CAPITAL BHD	Malaysia	MPHB MK	7,128,510	0.93	4.81	0.28	0.48	10.18	20.97
TUNE INS HOLDINGS BHD	Malaysia	TIH MK	6,633,510	2.72	16.58	0.97	1.40	6.27	17.36
<b>Regional Average</b>			<b>18,399,952</b>	<b>2.42</b>	<b>18.04</b>	<b>0.86</b>	<b>1.11</b>	<b>4.89</b>	<b>15.81</b>
PVI HOLDINGS	Vietnam	PVI VN	4,134,525	0.70	14.52	1.10	0.38	1.70	4.87
VIETNAM NATIONAL REINSURANCE	Vietnam	VNR VN	3,145,822	1.12	11.09	0.84	0.60	3.98	9.79
BAOMINH INSURANCE CORP	Vietnam	BMI VN	1,449,600	1.85	15.65	1.00	0.99	2.59	6.13
BIDV INSURANCE CORPORATION	Vietnam	BIC VN	1,516,977	0.81	13.21	1.19	0.43	3.85	12.19
<b>Vietnam Average</b>			<b>2,561,731</b>	<b>1.12</b>	<b>13.62</b>	<b>1.03</b>	<b>0.60</b>	<b>3.03</b>	<b>8.24</b>
<b>BAO VIET HOLDINGS</b>	<b>Vietnam</b>	<b>BVH VN</b>	<b>38,786,900</b>	<b>3.09</b>	<b>31.49</b>	<b>2.39</b>	<b>1.65</b>	<b>2.23</b>	<b>9.82</b>

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**Undervalued:** Expected return, including dividends, over the next 12 months is greater than 10 percent.

**Fully-valued:** Expected return, including dividends, over the next 12 months is from zero to 10 percent.

**Overvalued:** Expected return, including dividends, over the next 12 months is below zero.

We then form a short-term outlook by combining macroeconomic factors with our technical analysis scoring system. This system generates bullish, neutral or bearish signals based on analysis of trending indicators, such as moving average, PSAR, and MACD, and momentum indicators, such as RSI and MFI.

Our overall recommendation is based on the following combinations of short-term and long-term views:

Recommendation	Long-Term Value	Short-Term Trend
<b>BUY</b>	Undervalued	Bullish or Neutral
	Fully-valued	Bullish
<b>HOLD</b>	Undervalued	Bearish
	Fully-valued	Neutral
	Overvalued	Bullish
<b>SELL</b>	Fully-valued	Bearish
	Overvalued	Neutral or Bearish

## CONTACT INFORMATION

For further information regarding this report, please contact the following members of the VPBS research department:

**Barry David Weisblatt**

Head of Research  
barryw@vpbs.com.vn

**Nguyen Thi Thuy Linh**

Director – Macro and Financials  
linhntt@vpbs.com.vn

**Chu Le Anh Ngoc**

Research Assistant  
ngoccla@vpbs.com.vn

For any questions regarding your account, please contact the following:

**Marc Djandji, CFA**

Head of Institutional Sales and Brokerage  
marcdjandji@vpbs.com.vn  
+848 3823 8608 Ext: 158

**Ly Dac Dung**

Head of Retail Sales & Brokerage  
dungld@vpbs.com.vn  
+ 844 3974 3655 Ext: 335

**Vo Van Phuong**

Vice President of Retail Sales & Brokerage  
phuongvv@vpbs.com.vn  
+848 6296 4210 Ext: 130

**Tran Duc Vinh**

Vice President of Retail Sales & Brokerage  
vinhnd@vpbs.com.vn  
+848 3835 6688 Ext: 369

**Domalux**

Vice President of Retail Sales & Brokerage  
domalux@vpbs.com.vn  
+848 6296 4210 Ext: 128

**Nguyen Danh Vinh**

Associate Vice President of Retail Sales & Brokerage  
vinhnd@vpbs.com.vn  
+848 3823 8608 Ext: 146

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### **Hanoi Head Office**

362 Hue Street,  
Hai Ba Trung District, Hanoi  
T - +84 (0) 4 3974 3655  
F - +84 (0) 4 3974 3656

### **Ho Chi Minh City Branch**

76 Le Lai Street,  
District 1, Ho Chi Minh City  
T - +84 (0) 8 3823 8608  
F - +84 (0) 8 3823 8609

### **Danang Branch**

112 Phan Chau Trinh Street,  
Hai Chau District, Danang  
T - +84 (0) 511 356 5419  
F - +84 (0) 511 356 5418