



Company Report: Agriculture Bank Insurance Joint - Stock Corporation (ABI)

Analyst Team
Research@gtias.com.vn
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Outstanding profitability underpinned by pioneered products

INVESTMENT THESIS

- Agribank Insurance (ABIC hereinafter) is the pioneer in the **secured credit insurance** provider in Vietnam market.
- **ABIC owns well dispersed risk business model according to the large sample rule**, making its **remarkable profitability**. The company records impressive low compensation fee rate (around 22% of net premium). That in line with well advantage from parent company-Agribank helps it rapidly expand market, maintaining steady premium growth as well as sector-lowest combined ratio. As the results, ROE of ABIC is at sector-highest level, two-folded ROE of peers.
- There is still potential room for the Company to improve its margin, underpinned by recovered interest rate base expectation and from diversified investment portfolio.

INVESTMENT RISKS

- The premium growth mostly depends on credit growth of Agribank that has temporary suffered from Covid in 2 latest years. In addition, the investment portfolio only focusing on short-term deposit also exposed to declining interest rate.

RECOMMENDATION

The advantage from the parent bank helps to reinforce ABIC's premium revenue growth and outstanding profitability.

Compared to peers, ABI is trading at a much lower P/E at 7.7x than the 14.x sector average.

GTJAS recommend "**BUY**" ABI with a target price of **80,000VND/share** for long-term investment horizon (1y), corresponding to the **expected return of 25%**.

Recommendation:

Buy
(Initial)

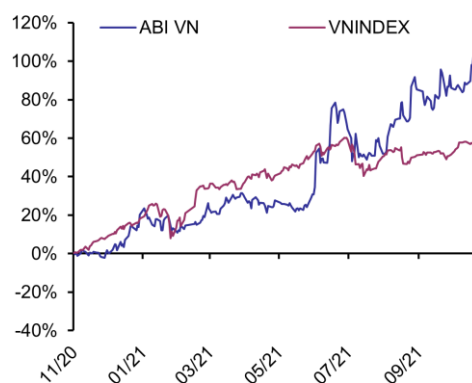
6-18m TP:

VND80,000
(Initial)

Current price:

VND64,000

Price performance



Price change	1 M	3 M	1Y
Abs. %	34.2	129.0	102.9
Relative to VN index	43.0	179.3	158.1
Avg price (VND)	56,264	49,904	43,048

Sources: Bloomberg, Guotai Junan (VN)

12/31	Rev (VNDb)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	PBT (%)	ROA (%)	ROE (%)
2019A	1,743	242	6,368	23	23,449	1200	12	17.40%	9.44%	27.21%
2020A	1,906	293	8,004	25.69	27,497	1200	12	19.23%	9.81%	28.04%
2021F	1,976	331	7,933	41.12	30,021	1200	12	20.94%	9.78%	25.46%
2022F	2,263	384	9,200	30.69	37,143	1200	12	21.21%	10.09%	23.86%
2023F	2,547	429	10,281	21.96	45,307	1200	12	21.06%	10.04%	21.86%

Shares in issue (m)	42.00	Major shareholders (%)	Agribank	52.93
Market cap (VND b)	2,619.45	Free float (%)		44.9
3- month average vol. ('000)	116.31	L/E (%)		0
52w high/low (VND)	64700 / 27000			

Sources: the Company, Guotai Junan (VN).

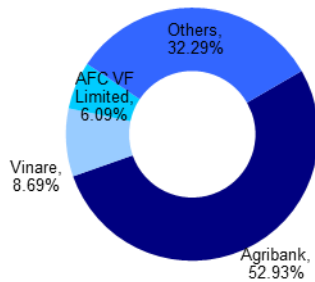
BUSINESS OVERVIEW

Agribank Insurance (ABIC) is a subsidiary of the Bank for Agriculture and Rural Development (Agribank), operating in the field of non-life insurance. ABIC's main insurance products are secured credit insurance, auto insurance and property insurance.

Notably, **secured credit insurance** (a non-life insurance product line helps borrowers repay bank debts at unforeseen risks, thereby protecting collateral and helping to relieve their family from repayment burden) is the core product of the company that have exploited into the niche insurance segment.

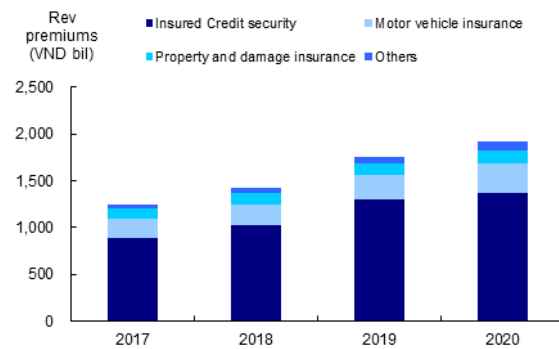
In Vietnam, there have been a very few numbers of secured credit insurance suppliers (PTI, BHV). However, ABIC stands out most in terms of size as well as proportion in the revenue structure.

Figure-1: Ownership structure



Source: ABI, Guotai Junan (VN).

Figure-2: Written premium breakdown



Source: ABI, Guotai Junan (VN).

Currently, **secured credit insurance** accounts for more than 70% of the company's total premium revenue. Thanks to the advantage of being a subsidiary of Agribank, ABIC is easily entering the market and expanding its customer base. About 40%-50% of Agribank's borrowers buy secured credit insurance.

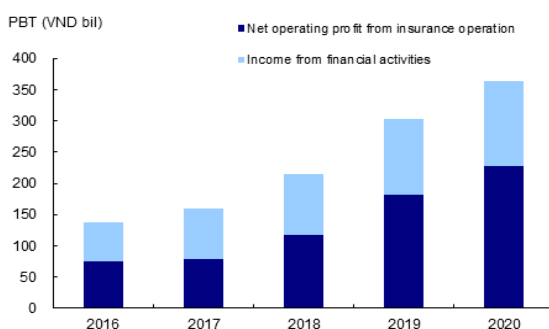
Low compensation rate of secured credit insurance helps ABI rank at No.1 in terms of profitability

ABIC's compensation rate is only 27% of total Premium revenue, the lowest in the whole industry, in which secured credit insurance has an average compensation rate of only 22%, property insurance with a rate of 13.1% and motor insurance with a compensation rate of 40%.

Risk is well dispersed according to the large sample rule. The low compensation rate, about 0.22% of ABIC (i.e. for every 10,000 customers, only 22 customers are at risk and compensated) comes from a very large group of customers who are individual borrowers at Agribank, with the number of contracts to date is about 16 million contracts. The term of each loan of 1-3 years and the maximum insured balance of VND 300 million show that ABIC's risks are well dispersed.

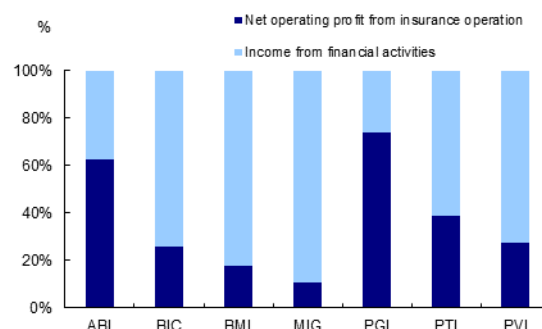
In terms of profitability, thanks to the low compensation rate and the use of the parent bank's system to cross-sell products, ABIC's combined rate is also the lowest in the industry and continuously decreased to 81.27% at the end of the third quarter of 2021. ABIC's profitability is impressive, reaching 30.27%, the highest in the whole industry and much higher than peers with ROE of only about 10%.

Figure-3: PBT breakdown



Source: ABI, Guotai Junan (VN).

Figure-4: PBT of ABI vs peers 2020



Source: ABI, Guotai Junan (VN).

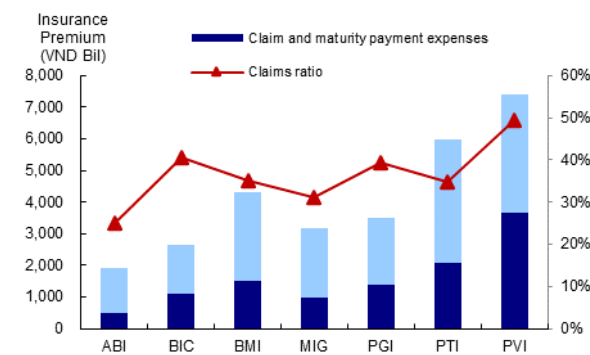
Prudent investment portfolio, however, the profit margin can rise to No. 1 across the industry thanks to expectations of recovering interest rates.

Currently, 100% of ABIC's portfolio is short-term deposits and completely dependent on the interest rate in the market. This on the one hand makes the portfolio yield not too high, on the other hand, it ensures safety and eliminates most market risks.

Looking at the balance of cash and short-term deposits (about VND 2,300 billion) and VND1,600 billion of available insurance provision also shows a good liquidity and provision buffer. Along with that, large number of provisions may not under terms of compensated, that in turn will be allocated to profit and thereby increases the valuation ABIC.

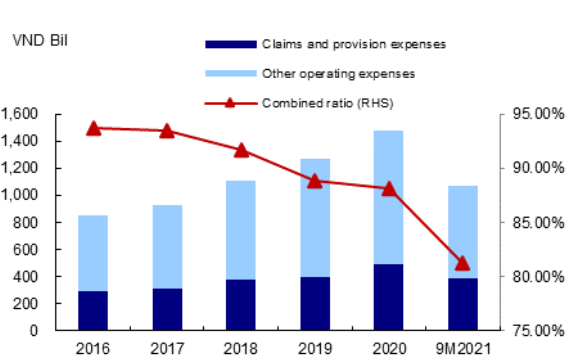
Currently, ABIC's pre-tax profit margin is the second highest in the whole industry, following PVI. Notably, PVI's profit portion is being largely contributed by financial profitability, which is currently temporarily benefiting from the rise in the stock market. In contrast, ABIC's profitability has room to improve and exceed PVI when interest rates recover, or the Company redirects portfolio allocation in the more aggressive way.

Figure-5: Claim ratio ABI vs peers 2020



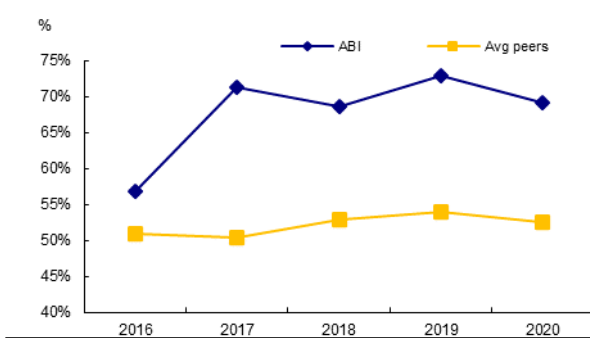
Source: ABI, Guotai Junan (VN).

Figure-6: Total insurance expenses ABI



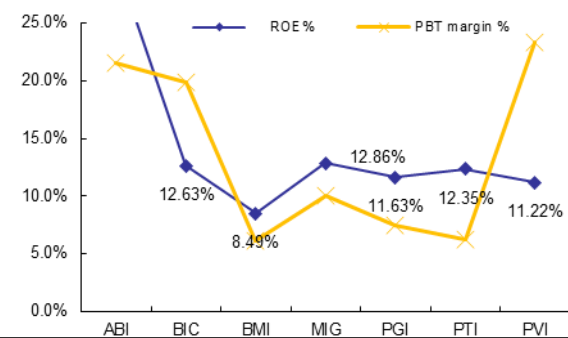
Source: ABI, Guotai Junan (VN).

Figure 7: Insurance reserves/premium rev



Source: ABI, Guotai Junan (VN).

Figure-8: Profitability 2020



Source: ABI, Fiiipro, Guotai Junan (VN).

Premium revenue will grow faster on the expectations of economic recovery after the epidemic and increased demand for loans at the parent bank

ABIC's current growth potential depends on the parent bank's lending operations. In 2020, credit activity throughout the economy declined because of Covid also led to the dragged secured credit insurance premiums growth from 27% in 2019 falling to 6.02%. The total premium revenue of ABIC accordingly increased by only 9.2% in 2020.

Assuming personal credit growth at Agribank will reach 10% in 2022 and maintain positive growth in the next period, we expect ABIC's new premium revenue to grow by 12%-15% in 2022-2024. The compensation rate remains as low as it is current and assumes a deposit interest rate of 6-5%-6.8%. In addition, ABIC will also benefit greatly with the expectation of increasing the proportion of individual loans in lending book of Agribank.

RISKS

The premium growth mostly depends on credit growth of Agribank that has temporarily suffered from Covid in 2 latest years. In addition, the investment portfolio only focusing on short-term deposit also large exposed to declining interest rate.

VALUATION

Assuming ABIC will achieve a premium revenue growth of 10%-15% per year, 100% of the portfolio continues to be allocated to short-term deposits with an average deposit interest rate of 6.8%/year, a sustained cash dividend payment rate of 12%/year and a discount rate of 12%, We determine the reasonable price for ABI of 80,000/share by cash flow discount method (**adjusted dividend ratio in shares of 14%**).

RECOMMENDATION

The advantage from the parent bank helps to reinforce ABIC's premium revenue growth and outstanding profitability.

Compared to peers, ABI is trading at a much lower P/E at 7.7x than the 14.x sector average.

GTJAS recommend "**BUY**" ABI with a target price of **80,000VND/share** for the 1-year investment term, corresponding to the **expected return of 25%**.

Financial Statements and Ratios

BS					P&L				
Year end Dec (VND ' bil)	2019	2020	2021F	2022F	Year end Dec (VND ' bil)	2019	2020	2021F	2022F
CURRENT ASSETS	2,375	2,796	3,152	3,541	Gross written premium	1,743	1,906	1,976	2,263
Cash and cash equivalents	48	58	59	68	Claim and maturity payment expenses	-386	-476	-498	-572
Short-term investments	1,940	2,283	2,597	2,905	Total direct insurance operating expenses	-398	-436	-446	-489
Accounts receivable	90	98	119	136	General and administrative expenses	-477	-483	-476	-545
LONG-TERM ASSETS	194	192	233	266	Income from financial activities	121	138	149	178
Fixed assets	122	132	158	181	PBT	303	366	414	480
Long-term investments	59	45	59	68	PAT	242	293	331	384
TOTAL ASSETS	2,569	2,988	3,385	3,807	EPS (VND)	6,368	8,004	7,933	9,200
					Financial ratio				
LIABILITIES	1,678	1,943	2,084	2,198		2019	2020	2021F	2022F
Current liabilities	1,678	1,943	323	329	PBT margin	17.40%	19.23%	20.94%	21.21%
Insurance reserve	1,408	1,609	1,761	1,869	ROA	9.44%	9.81%	9.78%	10.09%
Long-term borrowings and liabilities	0	0	0	0	ROE	27.21%	28.04%	25.46%	23.86%
OWNERS' EQUITY	891	1,045	1,301	1,609					
Retained earnings	299	380	636	944					
LIABILITIES AND SHAREHOLDERS' EQUITIES	2,569	2,988	3,385	3,807					

Source: the Company, Guotai Junan (VN).

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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GUOTAI JUNAN VIETNAM RESEARCH & INVESTMENT STRATEGY

Member	Position	In charge of	Email	Ext.
Võ Thế Vinh	Head of the Department	Research and investment strategy	vinhvt@gtjas.com.vn	704
Đỗ Trung Nguyên	Deputy head of the Department	Investment strategy	nguyendt@gtjas.com.vn	703
Trần Thị Hồng Nhung	Equity Analyst	Banking	nhungtth@gtjas.com.vn	706
Đình Quang Đạt	Senior Equity Analyst	Consumer	datdq@gtjas.com.vn	
Phí Công Linh	Senior Equity Analyst	Real Estate	linhpc@gtjas.com.vn	709



CONTACT	Hanoi Head Office	HCMC Branch
Advising: (024) 35.730.073	R9-10, 1 st Floor, Charmvit Tower, 117 Trần Duy Hưng, Hà Nội	4 th Floor, No. 2 BIS, Công Trường Quốc Tế, P. 6, Q.3, Tp.HCM
Stock ordering: (024) 35.779.999	Tel: (024) 35.730.073	Tel: (028) 38.239.966
Email: ivs@gtjas.com.vn Website: www.gtjai.com.vn	Fax: (024) 35.730.088	Fax: (028) 38.239.696