



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

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05 Oct 2022

Benefit from high interest rate environment

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.
- Until June 2022, Banca insurance with Agribank is potential. There is just 65% of total Agribank's client are insured by ABIC. Loan outstanding in Agribank's asset which are insured by ABIC is just 20.8%/total loan.
- ABIC still has room to improve profit margin from higher interest rate environment and diversify investment portfolio, which help to improve financial income.

Risk

- The premium growth mostly depends on credit growth of Agribank.

RECOMMENDATION

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

We recommend **"BUY"** ABI with a target price of **77,100VND/share** for long-term investment horizon (1y).

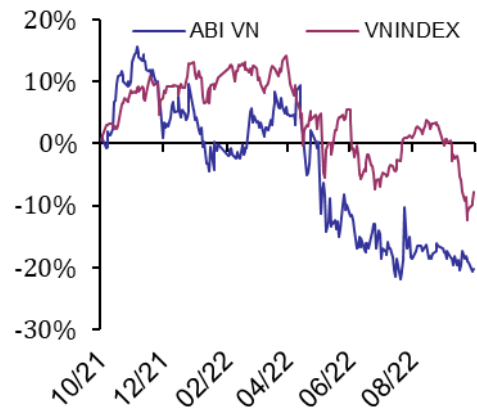
Recommendation:

Buy
(Updated)

6-18m TP: **VND77,100**
(Updated)

Current price: VND44,200

Price performance



| Price change | 1 M | 3 M | 1Y |
|----------------------|--------|--------|--------|
| Abs. % | -4.3% | -2.2% | -20.5% |
| Relative to VN index | 11.3% | -13.3% | -5.3% |
| Avg price (VND) | 45,950 | 46,355 | 54,154 |

Nguồn: 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% |
| 2021A | 1,978 | 271 | 7,933 | 41.12 | 28,516 | 1200 | 12% | 17.11% | 8.17% | 21.93% |
| 2022F | 2,128 | 279 | 9,200 | 30.69 | 33,207 | 1200 | 12% | 16.37% | 7.77% | 19.37% |
| 2023F | 2,395 | 346 | 11,432 | 21.96 | 39,460 | 1200 | 12% | 18.07% | 8.74% | 20.26% |

| | | | |
|------------------------------|---------------|------------------------|---------------|
| Shares in issue (m) | 42.00 | Major shareholders (%) | Agribank 51.5 |
| Market cap (VND b) | 1,890 | Free float (%) | 35 |
| 3- month average vol. ('000) | 7.4 | L/E (%) | 174 |
| 52w high/low (VND) | 64700 / 43000 | | |

Sources: the Company, Guotai Junan (VN).

Business operation updated

In the first half of 2022, ABI earned 924 billion VND revenue from policy writing, increase 6% YoY. However, NPAT was just 99.1 billion VND, decrease 40.7% YoY. The main reason for the drawdown is compensation cost increase significantly in 2022, more than 37%. During the pandemic in 2021 and heavy lockdown, the claims of 2021 was not fulfilled, and they were delayed to this year.

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%. In inflation environment, like the cycle we are in now, there is high possibility that the compensation cost will raise in the future. However, in long term, upward adjustment for premium fee is possible as BATD is high demand and useful insurance product, which ensure the financial stability for client.

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.

Potential Banca Insurance. Loan outstanding cover by each insurance contract is now raised from 300 million VND to 500 million VND. Only 20.8% of loan outstanding in Agribank loan portfolio are insured by ABIC. And only 65% Agribank client are covered by ABIC's product. So, the market is still very potential. As our estimation, premium revenue will reach 7,000 – 8,000 billion VND in 7-8 coming years from: increase in premium, increase covered loan size, credit growth of Agribank, returned client and new client.

BOD of ABIC mentioned in annual meeting that the 2022's plan can be achievable, and we think that in long term, profit of ABIC will be ensured.

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. Interest is raising and will improve financial income of ABIC. SBV have increased interest rate to 5% for term deposit under 6 months. We estimate that, financial income will increase by 27 billion VND, approximate to 10% of 2021 NPAT of ABIC.

ABIC at the end of Q2 2022 has 2,700 billion VND cash in balance, and there is just 1,800 in liability, which is reserve for compensation loss. The liquidity risk is therefore minimized. BOD mentioned in AM 2022 that they do not have plan to invest the excess cash this year but to put in saving account at Agribank. They may consider investment in other instruments or fields in the future.

ABIC plan to raise committed capital from retained earnings and switch to list the stock at the proper time.

RECOMMENDATION

The advantage from the parent bank helps to reinforce ABIC's premium revenue growth and outstanding profitability. Low compensation rate of secured credit insurance helps ABI rank at No.1 in terms of profitability. In long term, we are confident for the competitive advantage of ABIC as unique combination of Agribank and ABIC in selling insurance.

We recommend "**BUY**" ABI with a target price of **77,100VND/share** for long-term investment horizon (1y).



Financial Statements and Ratios

| BS | | | | | | P&L | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|---|--------|--------|--------|--------|--------|
| Year end Dec (VND ' bil) | 2019 | 2020 | 2021 | 2022F | 2023F | Year end Dec (VND ' bil) | 2019 | 2020 | 2021 | 2022F | 2023F |
| CURRENT ASSETS | 2,375 | 2,796 | 3,082 | 3,338 | 3,683 | Gross written premium | 1,743 | 1,906 | 1,978 | 2,128 | 2,395 |
| Cash and cash equivalents | 48 | 58 | 59 | 64 | 72 | Claim and maturity payment expenses | -386 | -476 | -584 | -601 | -678 |
| Short-term investments | 1,940 | 2,283 | 2,537 | 2,740 | 3,011 | Total direct insurance operating expenses | -398 | -436 | -447 | -469 | -508 |
| Accounts receivable | 90 | 98 | 119 | 128 | 144 | General and administrative expenses | -477 | -483 | -469 | -505 | -568 |
| LONG-TERM ASSETS | 194 | 192 | 233 | 250 | 281 | Income from financial activities | 121 | 138 | 124 | 120 | 178 |
| Fixed assets | 122 | 132 | 158 | 170 | 192 | PBT | 303 | 366 | 339 | 348 | 433 |
| Long-term investments | 59 | 45 | 59 | 64 | 72 | PAT | 242 | 293 | 271 | 279 | 346 |
| TOTAL ASSETS | 2,569 | 2,988 | 3,315 | 3,588 | 3,964 | EPS (VND) | 6,368 | 8,004 | 7,933 | 9,200 | 11,432 |
| | 1,678 | 1,943 | 2,080 | 2,149 | 2,255 | Financial ratio | | | | | |
| LIABILITIES | 1,678 | 1,943 | 317 | 322 | 320 | | 2019 | 2020 | 2021 | 2022F | 2023F |
| Current liabilities | 1,408 | 1,609 | 1,763 | 1,827 | 1,935 | PBT margin | 17.40% | 19.23% | 17.11% | 16.37% | 18.07% |
| Insurance reserve | 0 | 0 | 0 | 0 | 0 | ROA | 9.44% | 9.81% | 8.17% | 7.77% | 8.74% |
| Long-term borrowings and liabilities | 891 | 1,045 | 1,235 | 1,439 | 1,709 | ROE | 27.21% | 28.04% | 21.93% | 19.37% | 20.26% |
| OWNERS' EQUITY | 299 | 380 | 570 | 774 | 1,044 | | | | | | |
| Retained earnings | 2,569 | 2,988 | 3,315 | 3,588 | 3,964 | | | | | | |

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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