

Sector: Insurance

Recommendations **NEUTRAL**

MILITARY INSURANCE CORPORATION (HSX: MIG)
Potential but high valuation

Current price	24,800	Date of writing the report	23/06/2022	Shareholder structure	
Target price	21,700	Outstanding Shares (Million)	164.4	MB Bank	68.37%
Dividend yield	N/A	Market cap (billion VND)	4,610	MB Capital	1.45%
Upside	-13%	Average liquidity 6M	2,131,440		
		Foreign ownership	8.79%		

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Target Price: N/A VND
Stop loss price: N/A VND

Valuation

- BSC recommends **NEUTRAL** to MIG with 1-year target price at **VND21,700/share**, based on P/B valuation method with target P/B at 1.8x .

Forecasting business results

- In 2022, BSC forecasts net premium revenue and NPAT to reach 2,585 biVND (+20.2% YoY) and 256 billion VND (+14.3 % YoY), EPS FW = 1,559 VND/share**, assuming: (i) primary insurance premium +21.4% yoy; (ii) the combined ratio increased to 98.3%; (iii) Portfolio size +20% yoy and return on investment increased by 30bps.
- In 2023, BSC forecasts net premium revenue and NPAT to reach 2,978 biVND (+15.2% YoY) and 291 billion VND (+13.7% YoY), EPS FW = 1,767 VND/share**, assuming: (i) primary insurance premium +15.2% yoy, (ii) the combined ratio increased to 98.8%; (iii) Portfolio size +5% yoy and return on investment increased by 50bps.

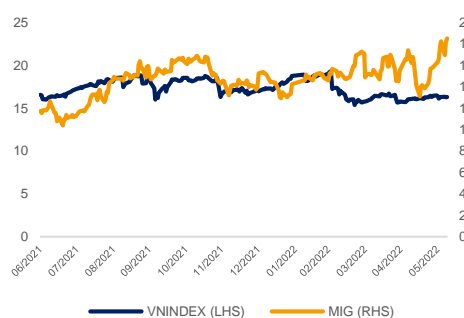
CP price comparison table and VNIndex



Investment perspective

- Premium revenue grew rapidly when MIG chose an expansion strategy and was supported by MBBank's ecosystem.
- The mix ratio increases as market share increases.
- The insurance industry will benefit from an increase in deposit rates as short-term deposits make up the majority of financial portfolios.
- MIG's financial investment profit increased with the increase in the size of the portfolio and the proportion of bonds.
- Valuation (P/B fwd = 2.3x) is higher than industry average (P/B fwd = 1.6x).

P/E and VN index comparison table



Catalyst

- Issued to strategic partners, helping to increase business valuation .

Risk

- Post-pandemic economic activity increases the rate of insurance claims;
- The level of competition increases other costs in insurance activities.

Business Update

- Primary insurance premium in Q1/2022 increased strongly, +40% yoy; The combined ratio decreased from 98.0% in Q4/2021 to 96.8%, helping to increase income from insurance business activities.
- Financial profit +23.4% yoy.

	2021	2022F	Peer	VN-Index		2019	2020	2021	2022F
PE (x)	22.1	16.0	12.8	16.8	Insurance premium	2,248	2,923	3,400	4,262
PB (x)	2.6	2.1	1.6	2.6	EBIT	21	23	48	55
P/S (x)	1.6	1.6	1.7	10.3	NPAT	142	194	224	256
ROE (%)	12.8%	12.2%	13.3%	10.3%	EPS	1,210	1,492	1,648	1,559
ROA (%)	3.4%	3.2%	4.1%	6.4%	EPS growth	-6.0%	23.3%	10.5%	2.7%

BUSINESS UPDATE

MIG's business results in Q1/2022 recorded strong growth in insurance business, in which primary premium revenue +40% yoy, higher than the growth rate of 14.7% of the whole industry. Meanwhile, compensation and other expenses increased at a lower rate, helping the combined ratio QoQ and YoY reduce.

Table: Update business results Q1/2022 of MIG

<i>(billion VND)</i>	Q1.2022	Q1.2021	% YoY	Q4.2021	% QoQ
Primary premium	1,247	891	40.0%	1,253	-0.4%
Gross premium revenue	1,042	780	33.6%	985	5.8%
<i>Reinsurance transfer fee</i>	56	2	2235.2%	11	416.5%
The deduction from revenue	(432)	(264)	63.7%	(364)	18.6%
<i>Reinsurance transfer fee</i>	(664)	(334)	99.1%	(558)	19.1%
Net premium revenue	610	516	18.2%	621	-1.7%
Insurance commission	211	104	102.2%	197	7.0%
Net revenue from insurance business activities	821	621	32.3%	818	0.4%
Total cost of compensation and contingency	(682)	(522)	30.6%	(657)	3.8%
Gross profit from insurance business activities	139	99	41.3%	161	-13.6%
SG&A	(113)	(98)	14.9%	(145)	-22.1%
Financial expenses	26	0	N/A	16	61.8%
Net financial income	58	47	23.4%	78	-25.8%
Profit before tax	85	47	82.0%	95	-10.5%
NPAT	68	37	81.9%	76	-10.3%
Trailing EPS	1,550	1,420		1,565	
Loss ratio	28.6%	34.0%		24.8%	
Cost ratio	80.3%	84.1%		80.3%	
Combine ratio	96.8%	100.0%		98.0%	

Source: MIG, BSC Research

BUSINESS PROSPECTS IN 2022-2023

MIG chooses the strategy to boost premium revenue growth

MIG has the highest revenue growth in the industry in the past 3 years. The current orientation of MIG is to expand the scale of premium revenue through: (i) focusing on promoting high-growth segments, and (ii) benefiting from MBBank's ecosystem.

Figure : Primary premium revenue of MIG (biVND)

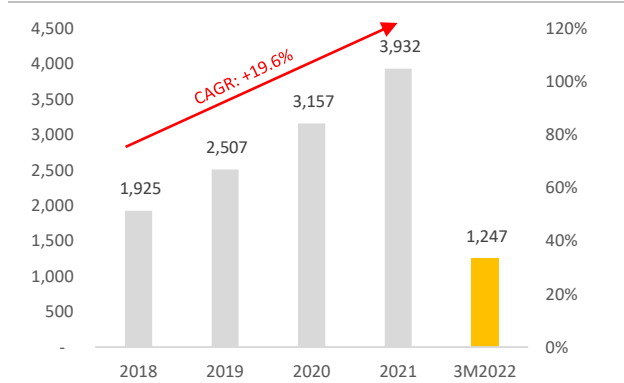
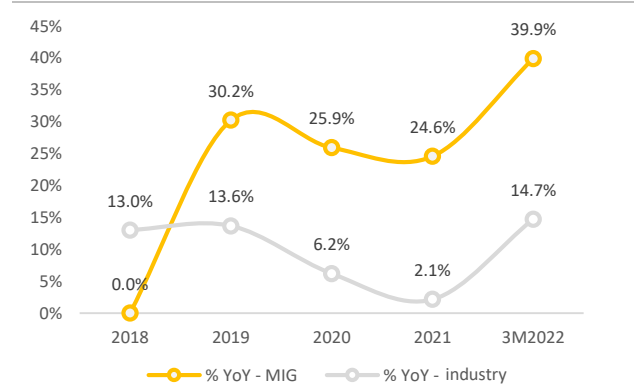


Figure : MIG's primary premium revenue growth outperforms the industry



Source: AVI, MIG, BSC Research

(i) Focusing on promoting high-growth segments. Personal Insurance product was expanded by MIG with CAGR from 2017-2021 at 42% and is currently ranked 2nd in total revenue structure (after Motor Vehicle Insurance).

Figure : Life insurance premium revenue has grown strongly in the past 5 years

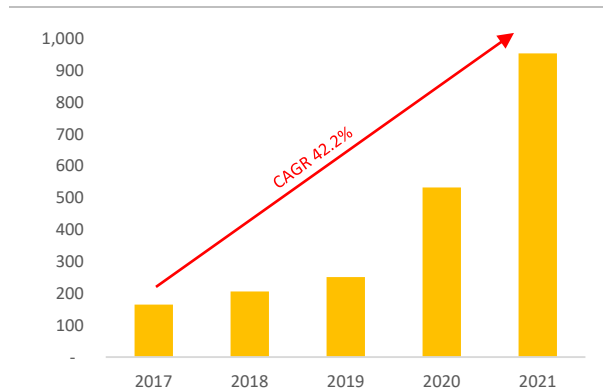
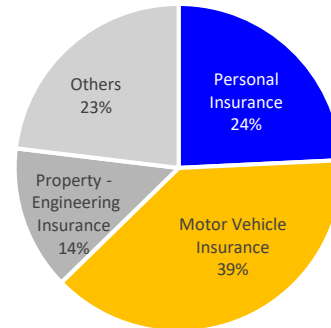


Figure : Motor Vehicle Insurance and Life Insurance accounted for the largest proportion in total revenue structure



Source: MIG, BSC Research

BSC expect the personal insurance segment to continue to grow strongly since there is still plenty of market pace to reach out. For the whole industry, the health insurance accounted for 39% of the premium revenue structure, but still maintained a high growth momentum. We expect this segment to continue to grow as life expectancy of Vietnamese people is gradually increasing, leading to increased demand for health insurance in the future.

Figure : Health insurance has the second highest growth rate in the whole industry Motor Vehicle Insurance

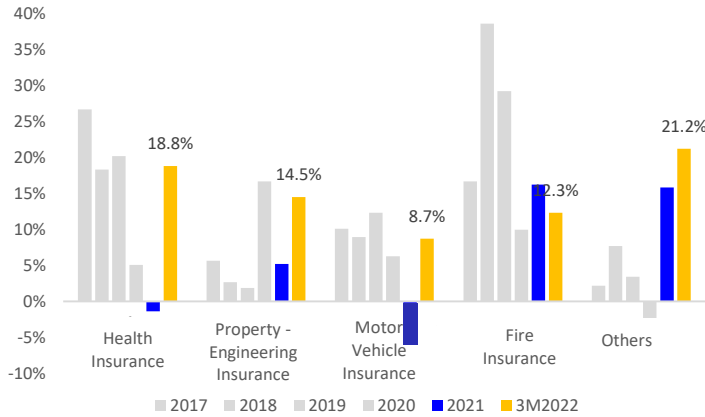
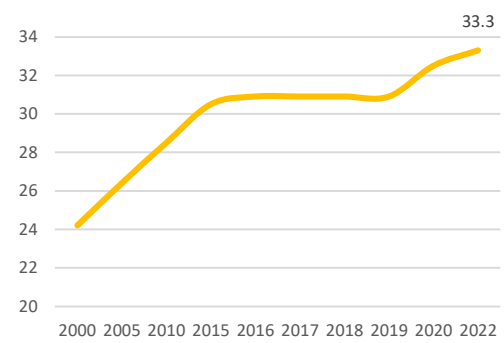


Figure : Life expectancy in Vietnam is increasing gradually, currently at 33.3 years old



Source: MIG, Danso.org, BSC Research

(ii) Benefiting from MBBank's ecosystem. Premium revenue through bancassurance has nearly tripled in the past three years. Together with digital channels, these two sales channels gradually account for the same proportion as the traditional dealer channels in MIG's revenue structure. We expect the business will grow strongly thanks to taking advantage of MBBank's large customer networks. By the end of 2021, the size of MBBank's individual customers reached 12 million, of which 9.5 million transactions were made via the app. This bank also expects the number of new accounts opened on the app to reach 19.5 million (+105%) in 2022.

Figure : Bancassurance and Digital Channels have grown rapidly in the past 3 years (bilVND)

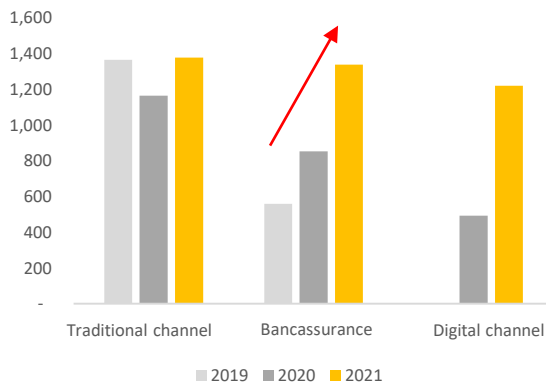
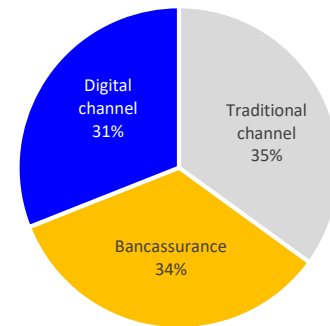


Figure : Bancassurance and digital channels account for nearly the same proportion as traditional agency channels



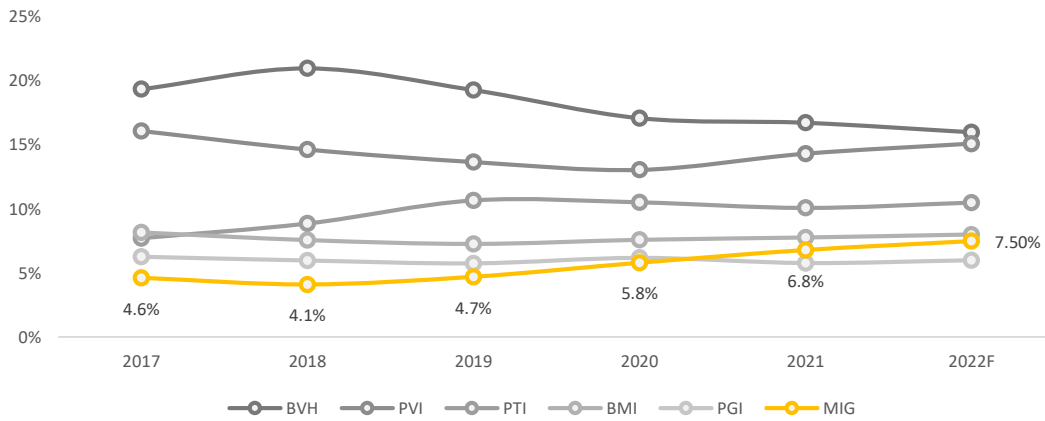
Source: MIG, BSC Research

With the above strategy and advantages, BSC forecasts that MIG's primary premium revenue growth in 2022-2023 will be at +21.5% yoy and 15.2% yoy, respectively.

Towards the top 4 non-life insurance market share

BSC forecasts that MIG's market share by the end of 2022 will be at 7.5%. By the end of 2021, MIG is still about 2% away from the top 4 in market share (equivalent to 1,140 bilVND in revenue). With a high growth rate of 20%/year, we expect MIG to soon approach BMI in the race for market share, and join the top 4 in the period 2022-2023.

Figure : MIG approaches the top 4 leading enterprises



Source: Insurance yearbook, BSC Research

Fast growth comes with increased mix rate

BSC forecasts that MIG's combined ratio will increase slightly in the period 2022-2023 as the company accelerates revenue growth to capture market share, based on:

MIG's compensation rate will increase slightly due to: (i) Increase the possibility of incurring insurance compensation obligations when socio-economic activities return to normal after the epidemic; (ii) increasing the proportion of health insurance helps limit the increase in the rate of compensation.

(i) Increase the possibility of incurring compensation obligations: MIG's claim ratio has decreased in 2021 – this is also the general trend of the insurance industry when benefiting from the delay/postponement of claim payments due to the epidemic. We believe that the rate of claims for professional services, especially motor vehicle insurance, will increase in 2022-2023 when the epidemic is under control.

(ii) Increasing the proportion of health insurance helps limit the increase in the rate of compensation: Motor vehicle insurance usually has the highest compensation, in the range of 40%-50% of premium revenue, while the compensation level of personal insurance is just under 20%. Assuming the proportion of personal insurance increases faster than other segments, we forecast that MIG's claim ratio will increase slightly in 2022 and 2023, at 28.0% and 28.4 %, respectively.

Figure : Compensation rate of personal insurance is much lower than motor vehicle insurance

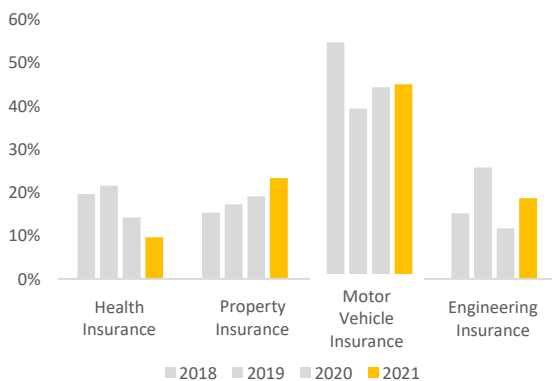
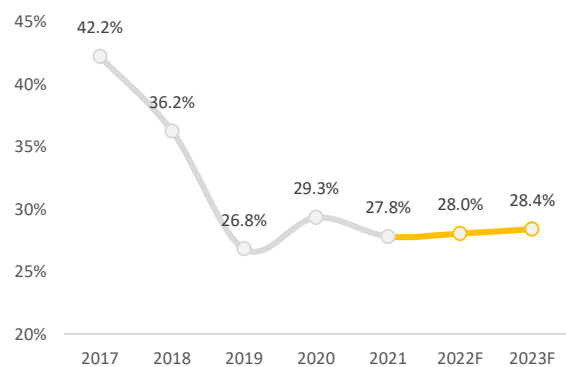


Figure : BSC forecasts that MIG's compensation payout ratio will increase slightly in 2022



Source: MIG, BSC Research

BSC forecasts that the expenditure ratio on insurance activities will increase when expanding the scale of premium revenue. Other expenses for insurance activities of MIG have increased continuously in the last 5 years and are at a high level compared to the industry. We believe that other costs will increase due to MIG's strategy of focusing on growth in premium revenue, leading to increased brokerage commission costs. BSC forecasts that MIG's other expenditure ratio will increase to 54.4% in 2022 (in 2021: 53.5%) and 55.1% in 2023.

Figure : MIG's expenditure ratio in insurance activities is higher than the industry average

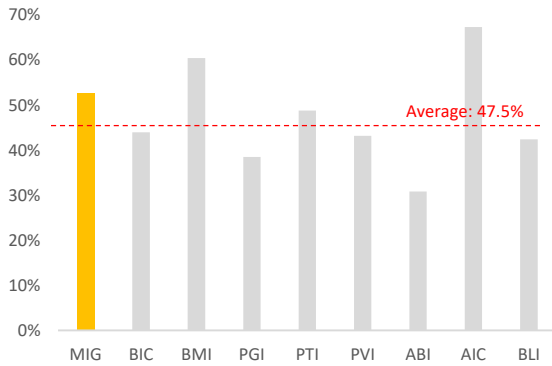
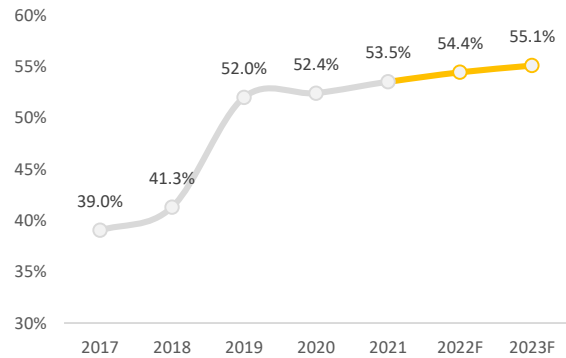


Figure : BSC forecasts an increase in other expenditures in 2022

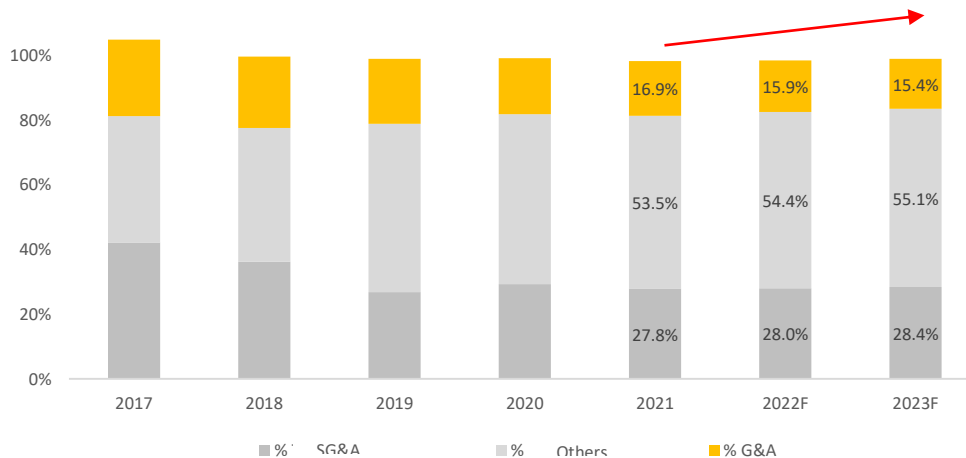


Source: MIG, BSC Research

SG&A ratio drops thanks to strong digital transformation. This ratio of MIG has tended to decrease in the past 5 years thanks to the reduction in the ratio of general and administrative expenses. We believe that this ratio has decreased thanks to MIG's strong digital transformation in the past time, and expect this trend to continue in the near future.

In summary, we forecast MIG's SG&A to grow to 98.3% in 2022 (in 2021 at 98.2%) and 98.8% in 2023.

Figure : BSC forecast MIG's SG&A to grow in 2022 and 2023



Source: MIG, BSC Research

Profit from financial investment increased, thanks to the increase in investment portfolio size, and benefit from increased deposit rates

Portfolio size increased thanks to the issuance of capital increase. MIG plans to raise capital through issuing shares to existing shareholders and issuing ESOPs for employees. The size of MIG's charter capital after the issuance will increase by 286 biVND. The capital increase will help MIG increase the level of technical

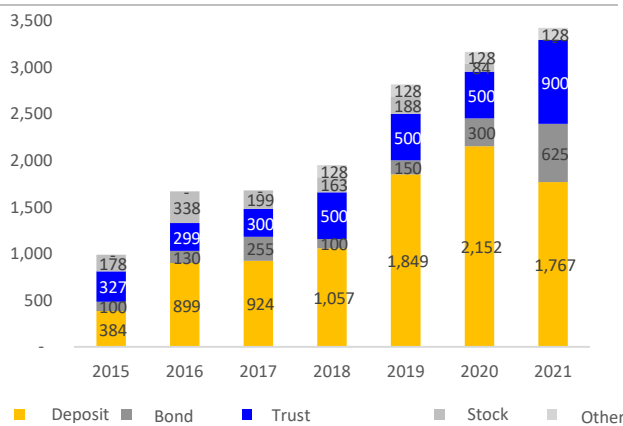
reserve, thereby increasing the scale of financial investment (currently contributing 82% of the profit). BSC forecasts MIG's portfolio size to be +20% in 2022 and +5% in 2023.

Increase the proportion of bonds and investment trusts to increase financial investment efficiency. MIG has restructured its financial portfolio in the direction of reducing the proportion of deposits, increasing the proportion of bonds and investment trusts in 2021. We expect this strategy will help MIG increase investment yield since bond interest rates are usually higher than deposit rates.

Benefit when deposit rates increase. The increase in deposit rates has a positive impact on financial investment efficiency as cash accounts for more than 50% of MIG's investment portfolio. With a 50bps increase in deposit rates, we forecast MIG's financial revenue to increase by 10-15 bilVND in 2022-2023.

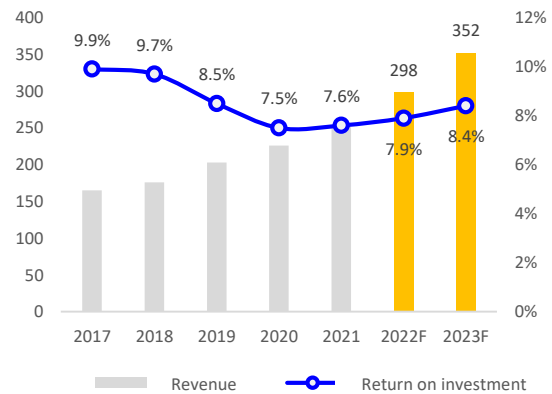
BSC forecasts MIG's financial income +18.7% yoy and 18.1% yoy in 2022-2023.

Figure : MIG increases the proportion of bonds and investment trusts in the portfolio structure in 2021



(*) Investment trust at MB Capital

Figure : Financial revenue is expected to increase thanks to the increase in portfolio size and return on investment



Source: MIG, BSC Research

Valuation is high compared to the average of the non-life insurance industry

We think MIG's valuation is already at a high level. MIG is being traded at P/B = 2.3x – the highest in the non-life insurance industry. Although MIG has grown rapidly relative to the industry, we believe that the above valuation is much higher than the industry average and higher than the growth in profitability of the business.

Figure : MIG's ROE with industry average

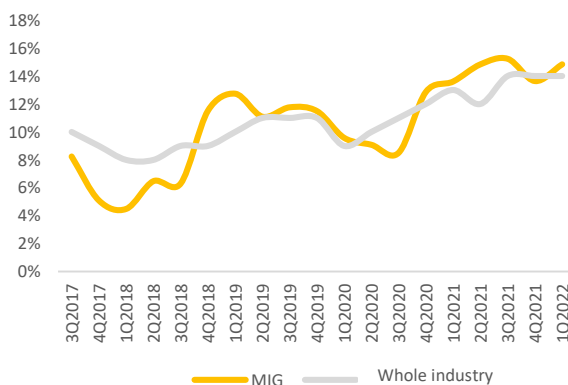
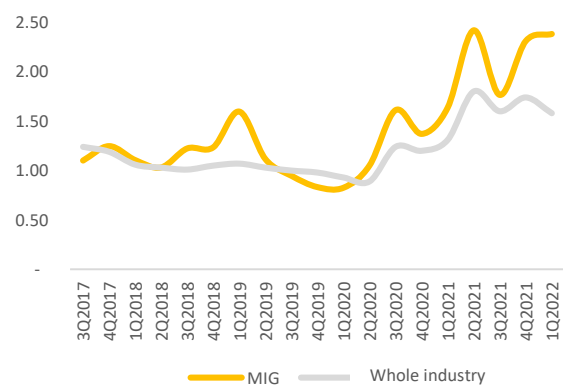


Figure : MIG's P/B valuation is much higher than the industry



Source: MIG, Bloomberg, BSC Research

Table : Comparison of valuation of insurance companies

Company	Market cap (billion VND)	P/E	P/B	ROE	Thị phần
MIG	4,610	16.33	2.29	15.0%	6.8%
PTI	4,823	19.73	2.22	11.7%	10.1%
BVH	37,413	19.93	1.73	8.9%	16.7%
ABI	1,969	9.62	1.64	18.0%	3.4%
PGI	3,038	8.31	1.60	21.6%	5.8%
PVI	11,313	13.25	1.45	11.1%	14.3%
BMI	3,179	14.94	1.33	9.5%	7.8%
BLI	959	12.00	1.31	11.1%	2.1%
BIC	3,125	8.01	1.20	15.4%	4.7%
AIC	1,030	59.88	0.98	1.7%	3.7%
Average		18.20	1.57		
Median		14.10	1.52		

Source: Bloomberg, BSC Research

FORECASTING BUSINESS RESULTS

BSC forecasts MIG's net premium revenue and NPAT in 2022 at 2,585 biVND (+20.2% yoy) and 256 biVND (+14.3 % yoy), EPS fwd = 1,559 VND/share, assuming:

- Primary premium revenue +21.5% yoy;
- Combined rate increased to 98.3% (from 98.2% in 2021);
- Financial portfolio +20% yoy from: (i) retained earnings in 2021; (ii) additional capital source and the portfolio's return increases to 7.9% (compared to 7.6% in 2021) assuming: (i) the proportion of bond investment and (ii) deposit rate +50 bps.

In 2023, BSC forecasts MIG's net premium revenue and NPAT will reach 2,978 biVND (+15.2% yoy) and 291 biVND (+13.7% yoy), respectively, EPS in 2023 = 1,767 VND/share, assuming:

- Primary premium revenue +15.2% yoy
- Combined rate increased to 98.8%
- Financial portfolio +5% yoy from retained earnings in 2022 and Investment yield of portfolio increases to 8.4% assuming deposit interest rate continues to increase by 50 bps due to inflation and increase the proportion of investment in bonds.

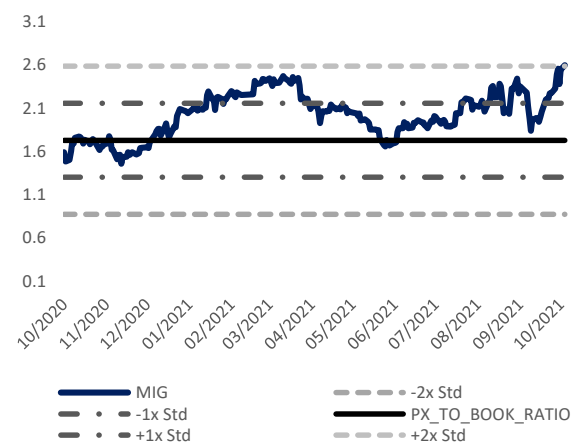
VALUATION

We use the P/B valuation method, with a **target P/B of 1.8x** – higher than the industry average for a high-growth business with a history of selling capital to a strategic partner. With a forecast of BVPS in 2022 estimated at VND 12,048/share, we recommend **NEUTRAL** for MIG stock with **1-year target price of VND 21,700/share**.

Figure : P/E of MIG



Figure : P/B of MIG



Source: Bloomberg, BSC Research

APPENDIX

Business results (Billion VND)	2019	2020	2021	2022F	Balance Sheet (Billion VND)	2019	2020	2021	2022F
Gross premium	2,248	2,923	3,400	4,262	Cash and cash equivalents	13	12	9	23
- Discounts on insurance premiums	(610)	(866)	(1,249)	(1,677)	Short term investment	2,680	2,229	2,987	3,445
Net premium	1,638	2,057	2,150	2,585	Account receivables	781	661	601	672
Receipt of reinsurance	210	345	505	742	Account receivables	90	276	629	790
Revenue from insurance business	1,848	2,402	2,656	3,327	Reinsurance asset	736	960	1,408	1,558
Total cost of insurance claims	(495)	(704)	(738)	(933)	Total current assets	4,300	4,139	5,633	6,487
- Compensation for technical reserve	(513)	(699)	(680)	(860)	Long-term receivables	12	13	16	13
- Increase/decrease in compensation provision	17	(6)	(58)	(72)	Fixed Assets	420	423	81	80
Provision for large fluctuations	(18)	(21)	(22)	(28)	Long term investment	128	928	423	659
Other expense	(943)	(1,238)	(1,399)	(1,783)	Other non-current assets	54	47	414	405
Total direct expenses from insurance business activities	(1,456)	(1,964)	(2,160)	(2,744)	Total non-current assets	614	1,412	934	1,158
Profit from insurance business	392	439	496	583	Total Assets	4,914	5,551	6,567	7,645
Management costs	(371)	(416)	(448)	(528)	Liabilities	3,434	4,016	4,820	5,641
Profit from insurance business activities	21	23	48	55	Unimplemented revenue	272	296	260	278
Profit from financial activities	155	216	230	264	Insurance reserve	2,126	2,462	3,086	3,869
Other profits	2	3	2	2	Other short-term debt	977	1,169	1,367	1,367
Profit from CTLK	-	-	-	-	Short-term debt	3,375	3,928	4,713	5,514
EBT	177	242	281	322	Long-term debt	59	88	107	127
Tax	(35)	(49)	(57)	(65)	Paid-in capital	1,300	1,300	1,430	1,645
NPAT	142	194	224	256	Capital surplus	30	40	51	60
Minority interest	-	-	-	-	Retained earnings	150	195	266	299
Profit after tax - Minority interest	142	194	224	256	Total Equity	1,480	1,535	1,747	2,004
EPS	1,210	1,492	1,648	1,559	Total capital	4,914	5,551	6,567	7,645
					Number of shares outstanding (million)	130	130	143	164

Targets	2019	2020	2021	2022F	Targets	2019	2020	2021	2022F
Operational capacity					Profitability				
Compensation rate	26.8%	29.3%	27.8%	28.0%	ROA	2.9%	3.5%	3.4%	3.4%
Other cost ratio	52.0%	52.4%	53.5%	54.4%	ROE	9.6%	12.6%	12.8%	12.8%
Corporate Governance Shares/Net Insurance	20.1%	17.3%	16.9%	15.9%					
Combine Ratio	98.9%	99.0%	98.2%	98.9%	Property structure				
					Short-term assets/Total assets	88%	75%	86%	85%
Investment situation					Short-term debt/Total assets	69%	71%	72%	72%
Gross return on investment	8.6%	7.6%	7.6%	7.9%					
Net return on investment	6.6%	7.3%	7.0%	7.0%	BVPS	11,234	11,662	12,062	12,048

Source: MIG, BSC Research

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