

## Military Insurance Company - MIG

**Add**

# A solid choice in a high rate environment

FINANCIALS | Initiation

Target price (12M)

VND19,500

Consensus\*: Add:0 Hold:0 Reduce:0

Target price / Consensus: N/A

### Key changes in the report

Previous rating	N/A
Previous TP	N/A
Current price	VND16,400
52w high (VND)	28,610
52w low (VND)	12,600
3m Avg daily value (VNDmn)	8,176
Market cap (VNDbn)	2,631
Free float	31.6%
Dividend yied	0%
TTM P/E (x)	16.5
Current P/B (x)	1.4

### Price performance



Source: VNDIRECT RESEARCH

### Ownership

MBBank	68.4%
PYN Elite Fund	5.3%
Others	26.3%

Source: VNDIRECT RESEARCH

### Analyst(s):



**Quan Vu – Senior Analyst**

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- MIG, a fast-growing midcap non-life insurer, is a solid play that combines both growth and defensive features in a high interest rate environment.
- We expect MIG will deliver robust EPS CAGR of 21% over FY22-25F, driven by better investment yields and continued strong topline growth.
- Current valuation is undemanding; initiate ADD with TP of VND19,500.

### Initiate coverage with ADD rating

We initiate MIG with an ADD rating and 1-year TP of VND19,500 based on target FY23F P/B multiple of 1.5x. As the 5th largest non-life insurance player by direct premium with the backing of both Military Bank and Viettel Group, MIG is well-positioned to capture the significant growth potential of Vietnam's insurance industry. We forecast MIG will deliver strong earnings growth of 21% on average over the next 3 years and ROE in the 11-12% range.

### Strong topline growth across products fueled by market share gain

Over the past 3 years, MIG gained 2.9% market share in terms of direct premium – the highest increase in a crowded industry with over 30 players – to rise from the 7th position to the 5th position. Strong share gain allowed the company to grow its direct premium at a 28% CAGR, significantly higher than industry at a mere 9%. We believe MIG's unique ability to leverage the MBBank/Viettel ecosystem and its focus on the bancassurance channel have contributed to its strong outperformance on the topline and set company up for continued share gain in the years to come.

### Big beneficiary from higher rates and a rebound in equity market

Unlike many insurers who elect to invest most of their portfolios in bank deposits, MIG adopts a more flexible investment approach, whereby the insurer invests a sizeable percentage of its portfolio in other asset classes such as corporate bonds and equity in order to improve its investment yield. While this approach may expose MIG to higher investment risks, we believe over the long run it will allow the company to deliver stronger yields than its average peer. As interest rates turned meaningfully higher and a rebound in equity market looks imminent, MIG should enjoy better investment results in 2023.

### Undemanding valuation

MIG is trading at current P/B of 1.4x, slightly below its 3-year average of 1.6x. We believe this level of valuation is undemanding for a fast-growing insurer that can deliver both topline growth and defense in a high interest rate environment. Upside catalysts include (i) better-than-expected non-life combined ratio and (ii) strong equity market. Downside risks include (i) catastrophe losses and (ii) unexpected provision expenses on financial investments.

Key financial forecasts	FY20	FY21	FY22	FY23F	FY24F	FY25F
Direct premium	3,157	3,932	5,204	6,094	7,155	8,237
Net premium	2,057	2,150	2,694	3,268	4,006	4,837
Combined ratio	98.9%	97.8%	98.6%	99.6%	99.5%	99.4%
Net financial profit	216	230	161	290	309	327
Net profit (excluding MI)	194	224	159	242	262	284
EPS	1,179	1,361	969	1,472	1,593	1,724
yoy growth	18.6%	15.4%	-28.8%	51.8%	8.2%	8.2%
BVPS	9,335	10,628	11,507	12,979	14,572	16,296
ROAE	13.1%	13.5%	8.6%	11.8%	11.4%	11.0%

Source: VNDIRECT RESEARCH

## A solid choice in a high interest rate environment

### Investment thesis

#### We like MIG for:

- **MIG's unique competitive advantage as a member of the MBBank/Viettel ecosystem is a key tenet for long-term profitable growth.** As a subsidiary of MBBank group (6<sup>th</sup> largest bank in Vietnam by total assets) and part of the Viettel ecosystem (largest telecom conglomerate in the country), MIG has unique access to the vast customer base and distribution channels of MBBank/Viettel. These relationships have opened the door for MIG to large and profitable growth opportunities that may not be available for other insurers.

Coupled with its banca partnerships with multiple banks and consumer finance companies, MIG has gained meaningful share in the health and vehicle insurance space over the past 3 years. On the other hand, MIG's market share in the commercial lines has been largely flat at ~5%, well below the top 3 but suggests share gain opportunities remain if MIG can work to improve its reinsurance capability and capital position.

Across all the product lines, MIG has gained 2.9% market share over the 2020-2022 to rise from the 7<sup>th</sup> position to the 5<sup>th</sup> position with 7.7% market share, trailing the 4<sup>th</sup> position BMI (8.0% market share) closely.

- **Flexible investment approach will drive outperformance in the long run versus average peer.** Instead of investing most of its portfolio in bank deposits like many other insurers, MIG has been willing to look for investment opportunities in other asset classes including public equity and corporate bonds to improve yields. Although this approach exposes the company to higher investment risk and requires more sophisticated investment capabilities, it will help MIG to outperform the average peer in the long run, in our view.

2023 should be a good year for MIG in terms of investment performance. Higher deposit rates and a strong rebound in equity market should bode well for the company. We forecast MIG's net financial profit will increase by 81% yoy this year, which will drive net earnings to grow by 52% yoy and ROE to improve meaningfully to 11.8% from 8.6% in 2022.

- **Valuation is undemanding against a compelling growth outlook.** MIG is trading at 1.4x current P/B, which is below its 3-year average of 1.6x. Given our expectation of over 20% EPS CAGR over the next 3 years and reasonably strong ROE in the 11-12% range, we believe the current valuation of MIG is not demanding and the stock offers attractive risk-reward for investors.

### We initiate coverage on MIG with an ADD rating

We derive a 1-year target price for BVH of VND19,500/share (19% upside), based on 1.5x target P/B and FY23F BVPS of ~VND13,000. We choose our target P/B to be largely in-line with MIG's 3-year average of 1.6x considering our view that the company will deliver a ROE profile in the 11-12% over the next 3 years that is similar to its average ROE in the 2020-2022 period.

Upside catalysts include (i) better-than-expected non-life combined ratio and (ii) strong equity market. Downside risks include (i) catastrophe losses and (ii) unexpected provision expenses on financial investments.

**Figure 1: On absolute P/B basis, MIG is trading slightly under its 3-year average**



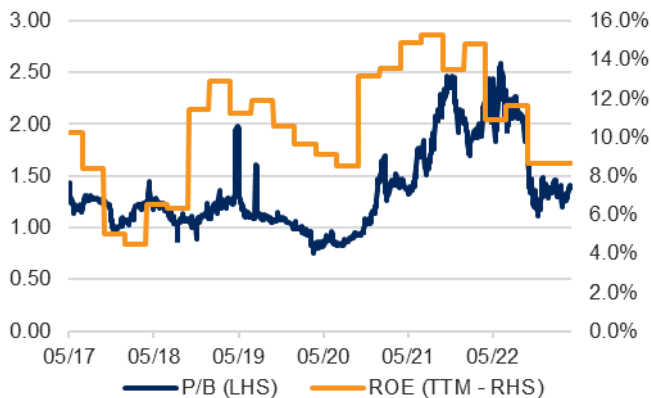
Source: VNDIRECT RESEARCH, FiinPro  
Note: Latest data as of 04/05/2023

**Figure 2: However, on relative P/B basis to the VN-INDEX, MIG is trading above its 3-year average**



Source: VNDIRECT RESEARCH, FiinPro  
Note: Latest data as of 04/05/2023

**Figure 3: MIG's P/B data shows positive correlation with its ROE performance**



Source: VNDIRECT RESEARCH, FiinPro, Company reports

**Figure 4: MIG is trading at cheaper valuation than top 2 market leaders BVH and PVI**

Absolute P/B	BVH	BMI	PVI	MIG
Current	1.79x	1.11x	1.51x	1.39x
1-Year Average	1.82x	1.27x	1.42x	1.75x
3-Year Average	1.95x	1.34x	1.27x	1.57x
3-Yr Avg + 1SD	2.15x	1.74x	1.51x	2.07x
3-Yr Avg - 1SD	1.74x	0.95x	1.03x	1.07x

Relative P/B	BVH	BMI	PVI	MIG
Current	105%	65%	88%	81%
1-Year Average	96%	66%	76%	91%
3-Year Average	89%	60%	59%	70%
3-Yr Avg + 1SD	100%	71%	73%	90%
3-Yr Avg - 1SD	78%	48%	44%	51%

Source: VNDIRECT RESEARCH, FiinPro, Company reports

**Figure 5: Peer comparison**

Company	Ticker	Target			Mkt cap	3-year EPS	P/E (x)		P/B (x)		ROE (%)		ROA (%)	
		Price	price	Recom			TTM	FY23F	Current	FY23F	TTM	FY23F	TTM	FY23F
		LC	LC		US\$m	CAGR (%)								
<b>Local:</b>														
Bao Viet Holdings	BVH VN	48,500	65,000	ADD	1,535	10.7	23.2	16.1	1.77	1.64	7.1	10.4	0.83	1.08
Military Insurance Corp	MIG VN	16,400	19,500	ADD	115	5.7	16.9	11.1	1.43	1.26	8.6	11.8	1.98	2.57
PVI Holdings/Vietnam	PVI VN	48,600	N/A	N/A	485	10.1	14.3	N/A	1.50	N/A	10.5	N/A	3.31	N/A
Baominh Insurance Corp	BMI VN	24,500	N/A	N/A	115	13.5	9.8	N/A	1.11	N/A	12.3	N/A	4.09	N/A
Post & Telecommunication Joint Stock Insurance Corp	PTI VN	33,300	N/A	N/A	114	N/A	N/A	N/A	1.47	N/A	(17.2)	N/A	(4.06)	N/A
Petrolimex Insurance Corp	PGI VN	26,100	N/A	N/A	123	22.5	14.2	N/A	1.72	N/A	11.8	N/A	3.10	N/A
BIDV Insurance Corp	BIC VN	28,400	N/A	N/A	142	10.0	10.7	N/A	1.30	N/A	12.2	N/A	4.91	N/A
Viet Nam National Aviation Insurance Corp	AIC VN	10,000	N/A	N/A	43	N/A	48.1	N/A	0.95	N/A	1.7	N/A	0.54	N/A
Agriculture Bank Insurance JSC	ABI VN	31,500	N/A	N/A	68	(12.6)	10.0	N/A	1.14	N/A	12.1	N/A	6.44	N/A
Bao Long Insurance Corp	BLI VN	11,700	N/A	N/A	30	30.4	8.4	N/A	0.94	N/A	11.4	N/A	3.65	N/A
<b>Average</b>						11.3	17.3		1.33		7.0		2.48	
<b>Median</b>						10.4	14.2		1.36		10.9		3.21	

Note: All prices are based on the closing price on 06 April 2023. All estimates are Bloomberg consensus estimates except for BVH and MIG, which are VNDirect estimates.

SOURCE: VNDIRECT Research, Bloomberg, Company reports

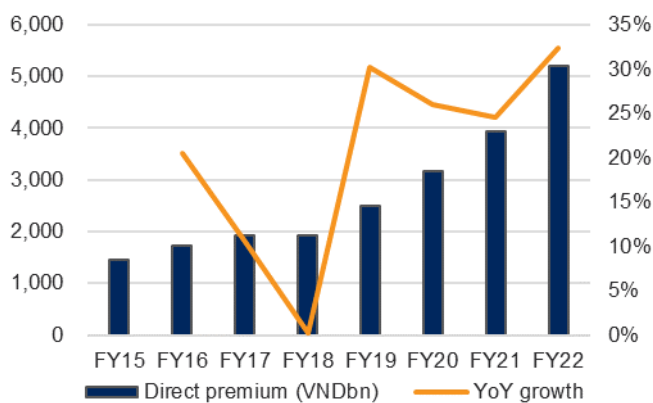
## Company overview

### A rising star in the non-life insurance industry

Military Insurance Corporation (MIG) was founded in 2007. The company offers a variety of non-life insurance products across both personal lines (personal accident, healthcare, and motor vehicle) and commercial lines (property & casualty or P&C, fire & explosion, cargo, aviation, and Hull – P&I among others). As of 2021, MIG operates 69 subsidiaries and 4,200 agencies across all 63 cities & provinces of Vietnam.

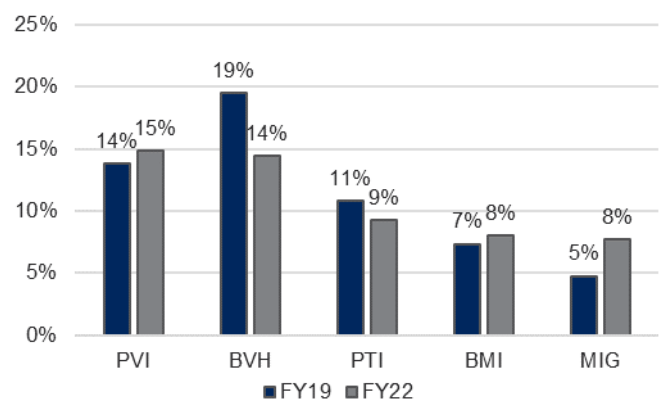
MIG has grown its businesses rapidly in recent years and rose to the top 5 largest insurers by direct premium in 2021 (maintained in 2022). Specifically, the company registered 20% CAGR in direct premium over the 2015-2022 period, outpacing the industry at 11% by a wide margin. Regarding product breakdown, MIG is more focused on the personal lines with 36% and 33% of 2022 direct premium coming from health and vehicle insurance products, respectively.

**Figure 6: MIG delivered robust premium growth over the past 4 years despite COVID disruption in 2020-2021**



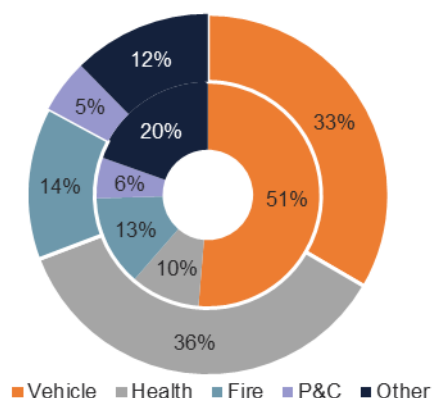
SOURCE: VNDIRECT Research, Company reports

**Figure 7: MIG gained significant market share in recent years (chart shows market share of the top 5 insurers by direct premium in 2022)**



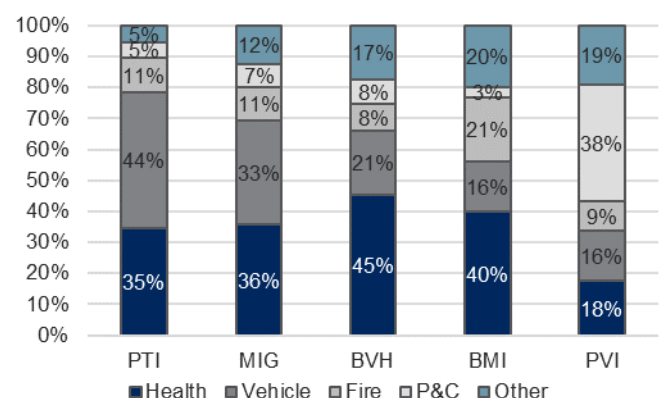
SOURCE: VNDIRECT Research, Insurance Association of Vietnam (IAV), Company reports

**Figure 8: MIG's product breakdown by direct premium indicates heavy focus on personal lines (FY19-22, inside-outside)**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 9: Based on FY22 premium, MIG and PTI have larger exposure to health and vehicle insurance than BVH, PVI, and BMI**



SOURCE: VNDIRECT Research, Company reports

### Above average return on capital

Over the past 5 years (2018-2022), MIG delivered an average ROE of 11.7%, which is better than its listed peer group median at 10.1%. This is commendable

considering the company has consistently improved market share over time. Typically, non-life insurers who vie for market share, especially in the personal lines, have to give up pricing / margin before trying to optimize profitability. MIG has proven it is capable of growing its book and delivering a solid level of profitability. As discussed above, we believe a flexible investment approach has contributed to MIG's outperformance.

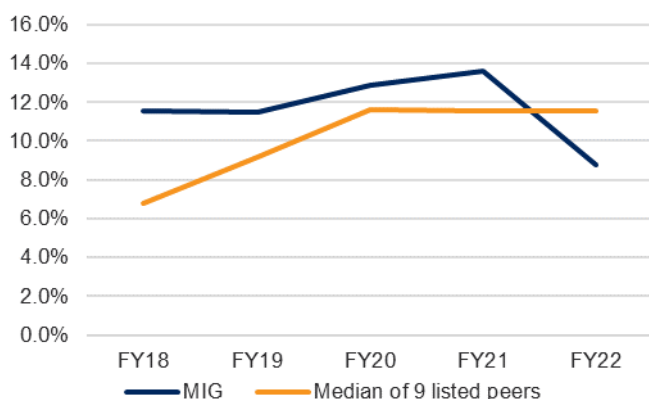
Now to be fair, the company did benefit meaningfully in FY20-21 during COVID thanks to its heavy weights in health and vehicle insurance, which saw larger declines in loss ratios than commercial products did. Also, MIG is only retaining a small percentage of the new business so it is not really taking much more insurance risk as it might appear.

FY22, however, was a tough year for MIG as re-opening post-COVID put upward pressure on loss ratio and continued low interest environment together with a huge drop in equity market caused the company's investment yield to plummet. As a result, ROE declined to just 8.6% in FY22.

Regarding capital position, MIG is planning to raise VND286bn capital in 2023 through equity issuance to current shareholders and to employees via ESOP (286M shares, 17.4% of current total). The purposes of this capital raise include the following: 1) improve retention of insurance risks, thereby increase profit, 2) increase bidding capacity, 3) ensure healthy level of solvency margin, and 4), invest in technology. The insurer has received approval from the Ministry of Finance and is expected to complete the plan this year.

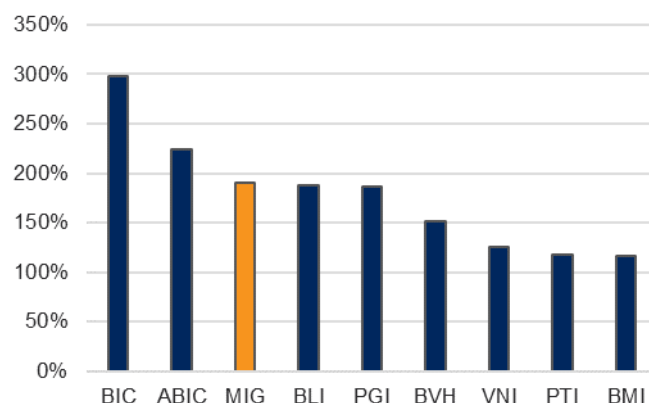
Compared to its peers, MIG's solvency margin ratio is already quite robust at 190% as of end-FY22. However, we do view a capital raise as a necessary and positive development as it should improve MIG's bidding power and capacity to retain more risk, which are crucial for commercial contracts.

**Figure 10: With regards to ROE, MIG outperformed its peer group median in FY18-21 but underperformed in FY22**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 11: MIG's solvency margin ratio is quite robust compared to peers (data as of end-FY22)**



SOURCE: VNDIRECT Research, IAV, Company reports

### A strong player in the personal lines with plenty of room to improve in commercial lines

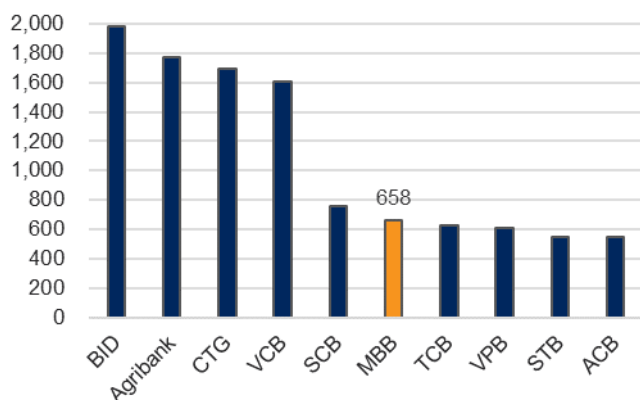
#### Unique ability to leverage from both MB bank and Viettel

Military Bank (ticker: MBB) is MIG's largest shareholder with 68.4% ownership. By total assets, MBB is the 6<sup>th</sup> largest bank in Vietnam, serving nearly 20M retail customers as of year-end 2022. The bank's colossal customer base represents a huge opportunity for MIG to cross-sell its products, especially health and vehicle insurance. In 2020, banca sales via MB branches reached VND554bn (+37.5% yoy), accounting for 18% of total direct premium.

Besides MIG, MBB owns securities broker MBS, fund manager MB Capital, consumer finance company MCredit, and life insurer MBBageas Life. These businesses complement each other to bring to customers a complete set of financial services (banking, investment, and insurance), which is a powerful value proposition. Among other insurers, only Bao Viet (BVH), which is the largest insurer in Vietnam, can offer a similar set of services under one roof (see our [initiation](#) on BVH for more details).

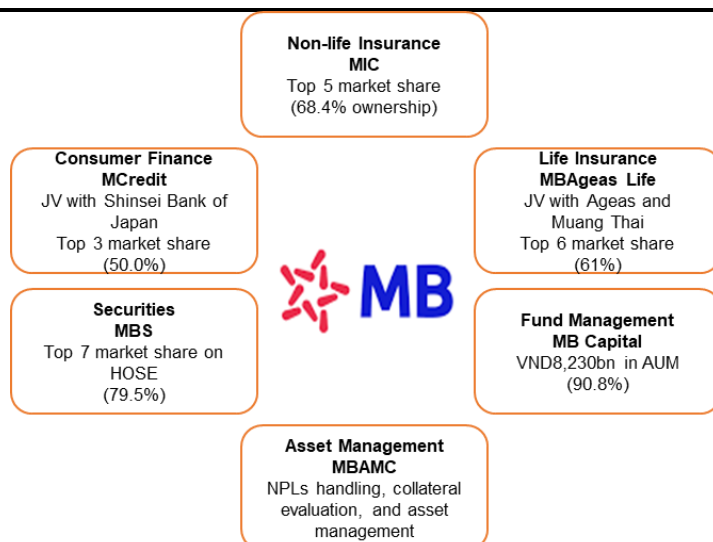
Furthermore, MIG and MBB are parts of a larger ecosystem related to Viettel and the Ministry of Defense (MoD). We note Viettel, who is a major shareholder of MBB, is the largest telecom conglomerate in Vietnam. Viettel is owned by the government and operates under the supervision of the MoD. The sheer size and scale of Viettel presents opportunities for MIG to expand its customer base and distribution capabilities. For illustration, in 2021, MIG signed distribution deal with Viettel Post (ticker: VTP) whereby VTP will help distribute MIG's products via 813 stores providing telecom services, 30,000 points of sale, and 1,000 post offices. Overall, we believe tight relationships with MBB and Viettel have been and will continue to be a key competitive edge for MIG.

**Figure 12: Top 10 banks in Vietnam by total assets as of 2Q22 (Unit: VNDtr) – MBB is the 6<sup>th</sup> largest**



SOURCE: VNDIRECT Research, Company reports

**Figure 13: MIG is part of MBBank which operates a diversified ecosystem of financial services**



SOURCE: VNDIRECT Research, Company reports

## MIG has made great strides in the personal lines

*Impressive share gain in health insurance but retention of new business is low*

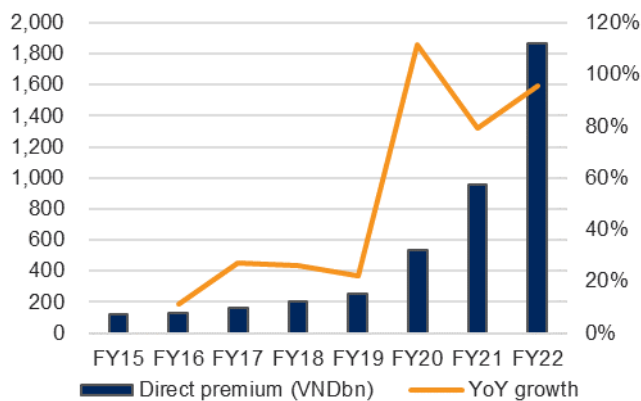
MIG delivered massive growth in its health business over the last 3 years, expanding its book by nearly 7.5x from VND250bn of direct premium in 2019 to ~VND1,900bn in 2022. This translates to a 2019-22 CAGR of 95% vs industry of just 9%. In terms of market share, the company rose from the 13<sup>th</sup> position in 2017 to the 4<sup>th</sup> position in 2022. Our conversations with industry experts suggest that MIG's rapid growth is underpinned by its success in cross-selling health insurance products to loan borrowers at various banks and consumer finance companies. MIG currently partners with over 10 banks to help distribute its products, with sales through banca accounting for 24% of total sales in 2021.

Although strong growth in direct premium has been a clear success for MIG, we find it somewhat baffling that the company is ceding nearly all of its new health businesses to other insurers. Specifically, while direct premium grew by ~VND1,600bn from 2019 to 2022, net premium in 2022 grew by only ~VND370bn. This is fairly unusual as insurers tend to retain close to 100% of premium for health businesses. The company has pointed to lack of capital as

one of the reasons for its low retention ratio; however, we thought its solvency margin ratio stood at pretty healthy level of 190% at the end of FY22.

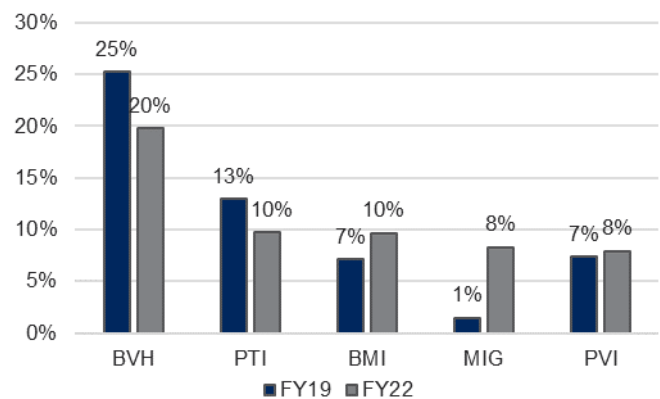
With regards to claim, health insurers including MIG experienced low claim ratio during 2020-2021 due to the COVID pandemic. However, as Vietnam fully re-opened from social distancing in 2022, MIG's claim ratio (after reinsurance) has climbed meaningfully higher and negatively affected its profitability. Looking ahead, if MIG can grow its book via cross-selling to consumers within the MBB/Viettel ecosystem, we believe the company can better manage the growth-profit tradeoff. However, if the insurer tries to compete for business outside its ecosystem, we think it will not be an easy job to achieve both growth and profitability simultaneously.

**Figure 14: MIG has delivered significant growth in its health insurance business since 2020**



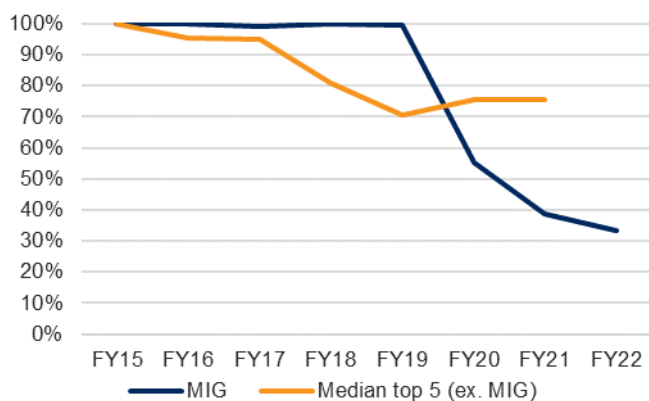
SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 15: Impressive share gain by MIG in the health insurance market**



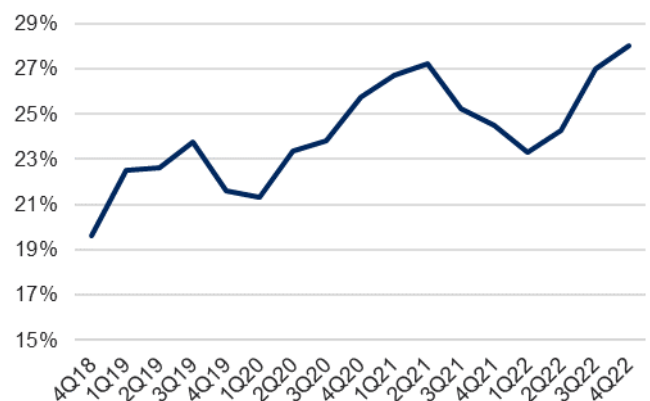
SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 16: MIG's retention ratio for its health business was only about 30% in 2022, much lower than industry norm**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 17: MIG's claim ratio for its health business (net of reinsurance, TTM basis) spiked sharply in 2022**



SOURCE: VNDIRECT Research, Company reports

### *Solid top 4 player in the vehicle space*

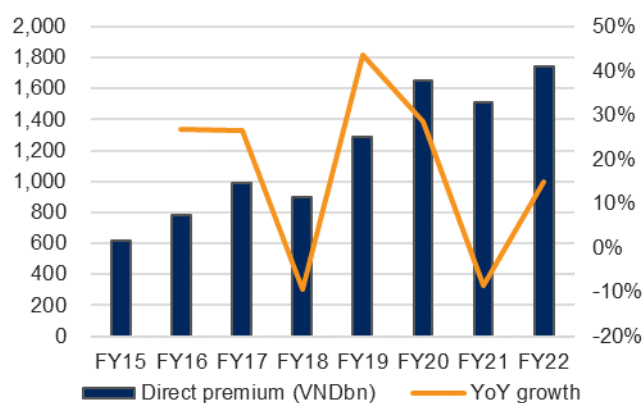
As highlighted in our previous works, vehicle insurance is probably the most competitive non-life market. This is understandable as vehicle insurance is not a complex product with relatively low insurance value (i.e. less risky). The product also offers significant growth potential given car penetration in Vietnam remains low. From a growth perspective, MIG has done well in this market as the company succeeded in maintaining its market share at around 9.5% over

the last 3 years to stay within the top 3-4. During the 2019-2022 period, MIG reported 10.6% CAGR in direct premium, outpacing the industry at 3.7%.

Similar to its health business, we find MIG's current retention ratio in its vehicle business at around 57% is fairly low compared to peers and would have expected the company to retain more of to maximize profit potential.

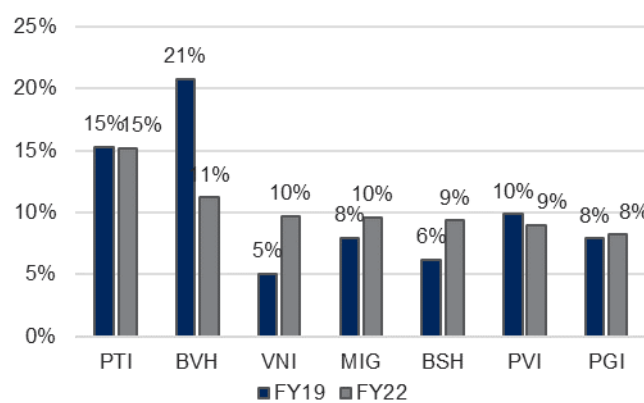
With respect to claim performance, vehicle insurance has always been deemed tough for insurers to consistently make money given tight pricing due to intense competition and high level of fraud. While FY20 and FY21 have been strong years for auto insurers from a profitability perspective (mainly due to COVID), we have witnessed sharply higher vehicle claim ratios in FY22 as drivers returned to the roads. MIG is no exception as it reported meaningfully higher vehicle claim ratio in FY22.

**Figure 18: MIG has delivered solid growth in its vehicle insurance business in recent years**



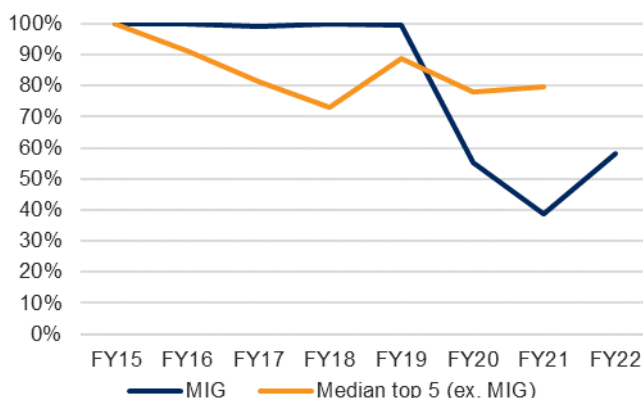
SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 19: With nearly 10% market share, MIG is among the top players in the vehicle market**



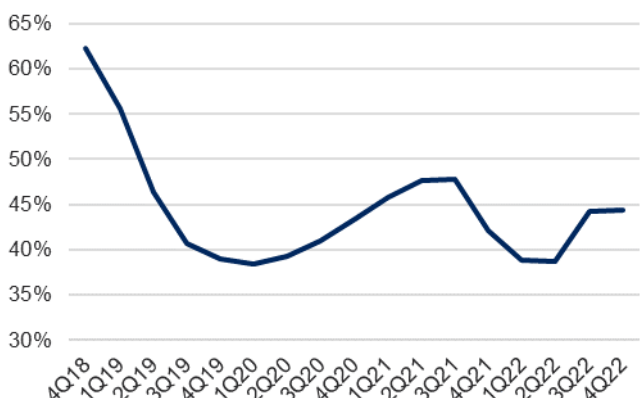
SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 20: MIG's retention ratio for its vehicle business was only about 60% in 2022, which is lower than industry norm**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 21: MIG's TTM claim ratio for its vehicle business (net of reinsurance) spiked sharply in 2022**



SOURCE: VNDIRECT Research, IAV, Company reports

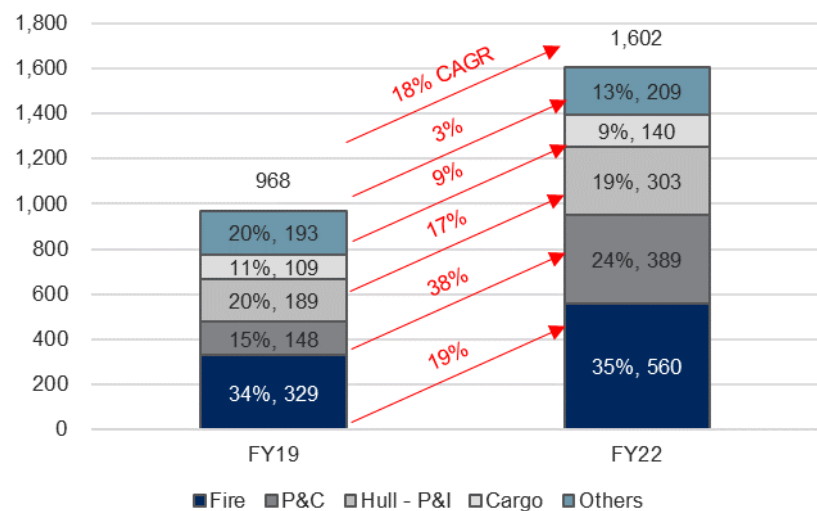
### More work to be done in commercial lines

MIG's direct premium in the commercial lines reached ~VND1,600bn in 2022. This implies a strong 18% CAGR during the FY19-22 period, which is better than industry CAGR of 12%. On a product-by-product basis, MIG has gained sizeable market share in P&C over the last 3 years while maintaining share in Fire, Hull – P&I, and Cargo. We believe tight relationships with parent bank MBB and

Viettel group helped MIG land more P&C contracts as MBB is a major provider of large-scale project financing. For example, MBB has been a top lender in the renewables space which saw significant development activities during FY20-21.

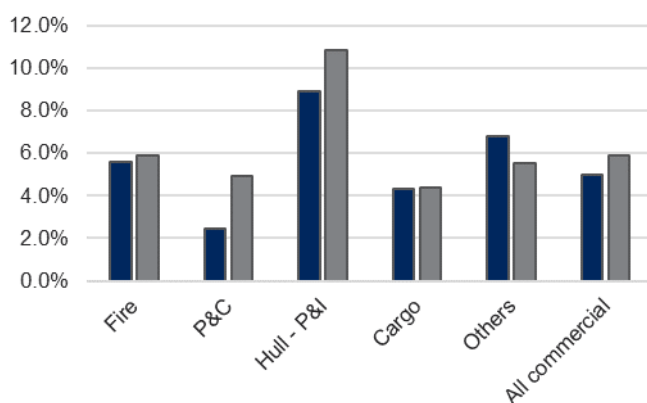
Although MIG has done a solid job in the commercial space, we would not view the insurer as one of the market leaders yet. In our view, the company needs to improve its reinsurance capabilities and offer more competitive pricing to be able to compete with the top 3 players PVI, BVH, and BMI. Unlike these 3 dominant players and other large commercial insurers such as BIC and PGI, MIG does not yet have a foreign insurer with more expertise as a strategic shareholder/partner. Having the support of a foreign insurer is helpful for winning commercial contracts as majority of the premium in these contracts is ceded to insurers overseas. That said, we note MIG has raised its foreign ownership limit to 100% and does have plan to look for a strategic shareholder.

**Figure 22: Breakdown of MIG's commercial book based on direct premium by product – strong growth in P&C is most notable.**



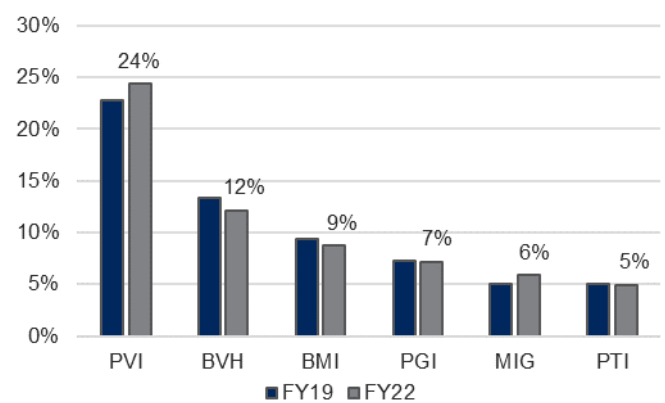
SOURCE: VNDIRECT Research, Company Reports and Websites

**Figure 23: Among key commercial products, MIG gained most market share in P&C over the last 3 years**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 24: MIG is the 5<sup>th</sup> largest commercial player by direct premium but it is a long way to reach top 3**



SOURCE: VNDIRECT Research, IAV, Company reports

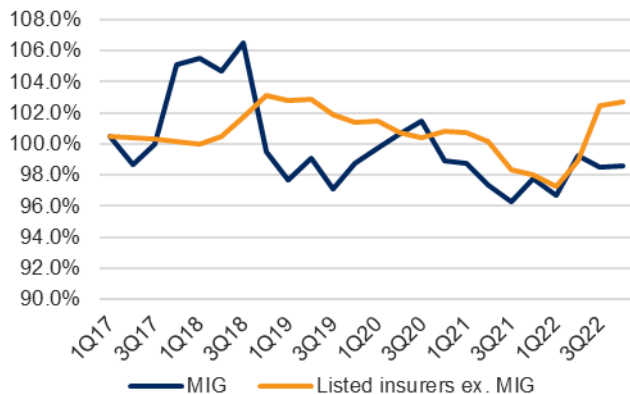
### Underwriting margin remains under pressure in the near term

Similar to other insurers, MIG experienced higher combined ratios in FY22 as loss ratio rebounded post-COVID as expected. However, the company outperformed its listed peers in terms of controlling costs considering its combined ratio went up only by 90bps yoy, which is meaningfully less than its

listed peers in aggregate up nearly 500bps yoy. Specifically, MIG did a good job managing its expense ratio down to partially offset the impact of rising loss ratio.

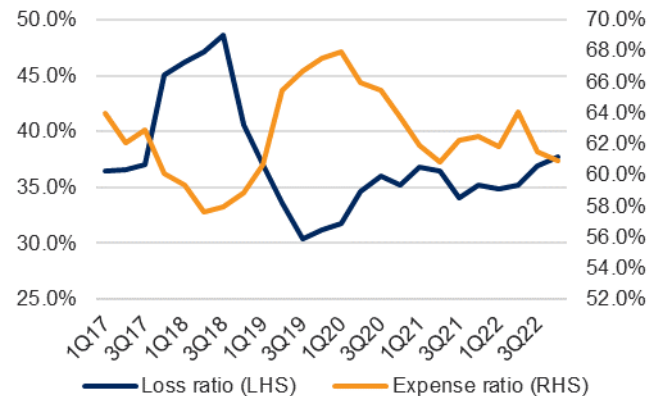
Regarding 2023, our latest conversations with industry participants still indicate the competitive environment remains intense across both personal and commercial lines with limited premium rate increase while rising inflation is putting upward pressure on cost of claim. Furthermore, claim activity in 1Q22 was still favorably impacted by the pandemic, creating a low base for yoy comparison. Therefore, we expect underwriting margin will be tight for the industry including MIG this year.

**Figure 25: MIG's combined ratio climbed up during FY22 but not as much as its peers' (TTM basis)**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 26: MIG's loss ratio crept up during FY22 but the company had its expense well under control (TTM basis)**



SOURCE: VNDIRECT Research, IAV, Company reports

## Flexible approach to investment will be a positive differentiator

### Higher risk higher return

While most other insurers elect to invest the majority of their portfolios in bank deposits, MIG adopts a more flexible approach to investing. Besides bank deposits, the company also invests a high percentage of its portfolio in corporate bonds and investment trust managed by MBCapital, which in turn, invests in a variety of asset classes including public equity. We believe a more flexible investing approach has allowed MIG to earn better investment yields than its average peer. However, this approach also exposes MIG's to higher investment risk and volatility in performance. Therefore, it requires the insurer of more sophisticated portfolio management capabilities.

We can witness the pros and cons of MIG's investment strategy through its performance over the last 3 years. During FY20-21 when equity market and corporate bond issuance were buoyant, MIG delivered strong investment yields of 7.6-7.7%, which was better than most peers. However, as the equity market nose-dived and corporate bond market faced regulatory clampdown in FY22, MIG's investment yield deteriorated meaningfully to just around 5.0%.

As of end-FY22, 58% of MIG's portfolio sits in bank deposits, which is lower than most of its closest peers. 24% or VND860bn is in investment trusts, which we believe invest a material amount in the stock market. 14% is in corporate bonds with the rest 4-5% in private equity investments.

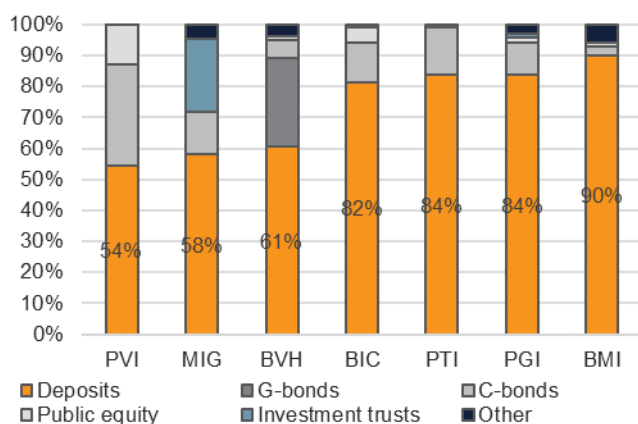
### Favorable investment outlook in FY23 for MIG

We expect higher deposit rates and a potential rebound in equity market should boost MIG's investment performance in FY23. Deposit rates have risen sharply after the State Bank of Vietnam raised policy rates by 200bps in October / November of 2022. 12-month deposit rates at state-owned commercial banks

(SOCBs) and private banks on average are now up 170bps and 220bps respectively vs. the beginning of 2022 and have surpassed pre-COVID level. This should bode well for insurers in general as the majority of their portfolios is invested in bank deposits and floating-rate corporate bonds.

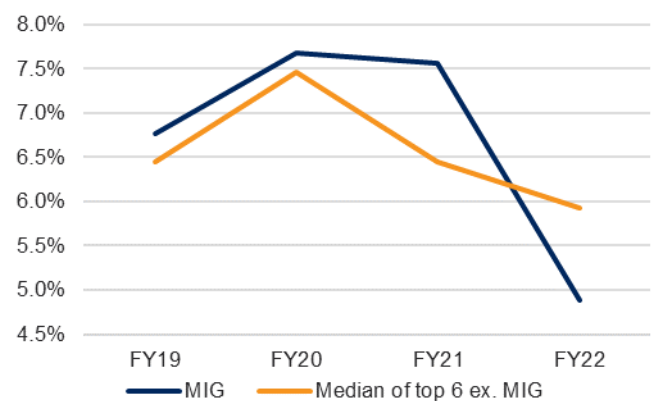
Regarding equity market, FY22 was a tough year for equity investors as the VN-INDEX dropped over 33%. We believe this huge drop caused MIG's yield from its investment trusts to plummet from over 12-13% in FY21 to just 1-2% in FY22 by our estimate. However, for FY23, our team at VND takes a more constructive view of the market and expects mid-teens earnings growth coupled with upward re-rating from trough valuation will carry the VN-INDEX back towards the 1,300-1,350 level. If our expectation materializes, MIG should benefit meaningfully as the insurer is fairly active in the public equity space.

**Figure 27: Asset allocation of top 7 insurers – MIG's portfolio is less concentrated in bank deposits than those of its peers (end-FY22 data)**



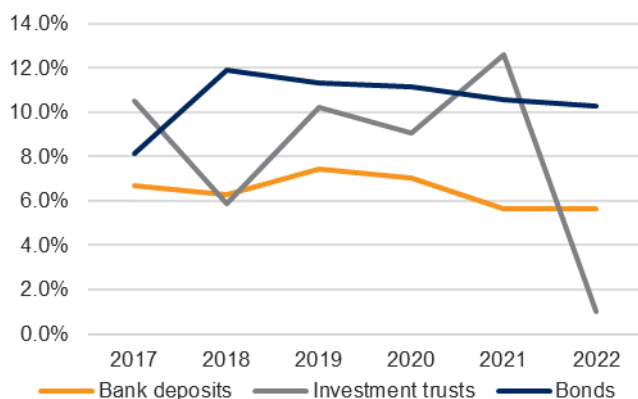
SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 28: Regarding investment yield, MIG has outperformed the average peer during FY19-21 but underperformed in FY22**



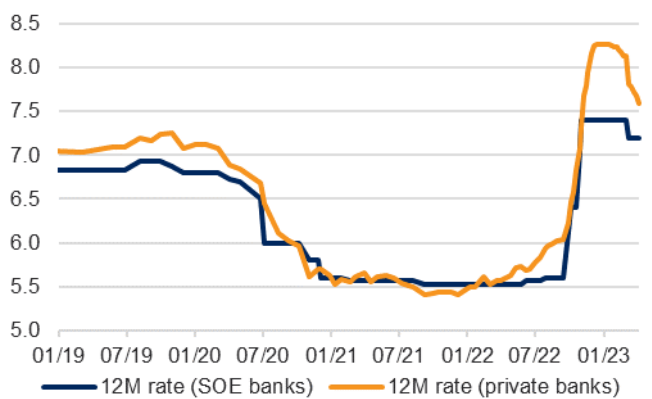
SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 29: MIG's gross investment yields by asset class – investment trust saw the most volatility likely due to heavy public equity exposure**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 30: Bank deposit rates increased sharply during late 2022 and surpassed pre-COVID level**



SOURCE: VNDIRECT Research, Bank websites

**Despite our expectation that MIG's strong growth momentum will continue, we remain conservative with our margin forecasts**

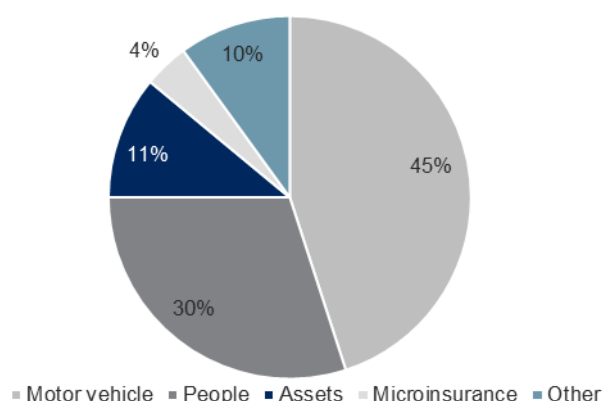
### Management's ambitious growth plan through 2026

In its 2021 annual report, MIG lays out its financial targets through 2025, which we thought were quite ambitious. Specifically, the company is aiming for FY21-25 CAGRs in revenue, profit, and equity of 23%, 30%, and 20%, respectively.

By 2026, MIG wants to be in the top 3 market share in revenue with over 20% ROE and combined ratio under 95%.

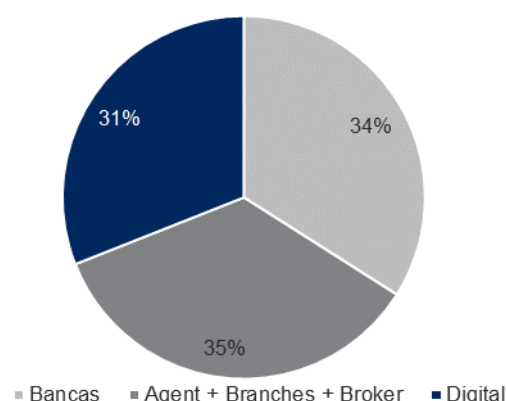
MIG mentions 3 key solutions to achieve these targets. First, the company is looking to develop innovative products, accelerate the development of banca channel, and start to deploy digital sales by applying automatic claim process as well as standardizing customer care process. Second, MIG is pushing for a transformation of its technology, which encompasses upgrading its core insurance system, digitizing its operational processes, and building smart data warehouse and reports. Third, effective management is promoted in terms of streamlining and optimizing its member company system.

**Figure 31: Expected revenue breakdown by product in 2026 (management's targets)**



SOURCE: VNDIRECT Research, IAV, Company reports

**Figure 32: Expected revenue by distribution channel in 2026 (management's targets)**



SOURCE: VNDIRECT Research, IAV, Company reports

### We take a more prudent view with our FY23- 25 forecasts

Although we appreciate MIG's ambition and drive, we do not think its long-term financial targets through 2026 are realistic, especially those related to profitability (ROE, combined ratio). If history is any indication, hardly can we find an insurer who can take market share aggressively and improve profitability simultaneously, especially in the vehicle and health insurance space.

The banca channel, which MIG expects to account for over 34% of its total sales in 2026, is an expensive channel since banks are the ones with pricing power because they own the access to the customer bases. Digital channels may sound promising in terms of lower customer acquisition cost but remain a concept at this point and have not been proven successful yet by any insurer in Vietnam. Overall, we think it will be tough for MIG to grow its businesses through these two specific channels at attractive margin.

While we are skeptical of MIG's profitability targets, we are more optimistic on its growth plan as we highly value MIG's unique competitive advantage from being a part of MBB/Viettel ecosystem. Therefore, we forecast MIG can grow its direct premium at 17% CAGR over the FY23-25F period vs. market in the 10-12% range, thereby improving its market share from 7.7% in FY22 to 8.5-9.0% in FY25F. This should put MIG comfortably in the top 3-5 largest insurers.

In terms of profitability, we expect MIG will see higher combined ratio in 2023 given low base in 1Q22 due to COVID and continued tight pricing environment. For the years thereafter, we conservatively assume the company can improve its combined ratio by only ~10bps each year.

With respect to investment performance, we forecast yield to improve meaningfully in FY23 on the back of sharply higher deposit rates and a strong

rebound in the equity market. For the years after, we forecast yield to moderate towards the 7.5% range.

Under our revenue/earnings assumptions, MIG would deliver 11-12% ROE during the FY23-25F period.

**Figure 33: Balance sheet and P&L forecasts for FY23-FY25F (VNDbn except for per share amounts)**

Key Financial Forecasts	FY20	FY21	FY22	FY23F	FY24F	FY25F	5-Year CAGR
Gross premium	2,923	3,400	4,789	6,314	7,375	8,456	23.7%
yoy	30.1%	16.3%	40.9%	31.8%	16.8%	14.7%	
Net premium	2,057	2,150	2,694	3,268	4,006	4,837	18.7%
yoy	25.6%	4.5%	25.3%	21.3%	22.6%	20.7%	
Operating income from insurance activities	23	48	37	12	19	28	3.8%
yoy	11.9%	110.0%	-23.2%	-67.2%	55.5%	46.3%	
Net financial profit	216	230	161	290	309	327	8.6%
yoy	40.0%	6.4%	-30.2%	80.6%	6.3%	5.9%	
Net profit (excluding MI)	194	224	159	242	262	284	7.9%
yoy	36.8%	15.4%	-28.8%	51.8%	8.2%	8.2%	
Investment balances	3,158	3,420	3,638	3,941	4,228	4,545	7.6%
yoy	12.5%	8.3%	6.4%	8.3%	7.3%	7.5%	
Equity	1,535	1,748	1,892	2,134	2,396	2,680	11.8%
yoy	3.7%	13.9%	8.3%	12.8%	12.3%	11.8%	
EPS (adjusted for stock dividend)	1,179	1,361	969	1,472	1,593	1,724	7.9%
yoy	18.6%	15.4%	-28.8%	51.8%	8.2%	8.2%	
BVPS (adjusted for stock dividend)	9,335	10,628	11,507	12,979	14,572	16,296	11.8%
yoy	3.7%	13.9%	8.3%	12.8%	12.3%	11.8%	

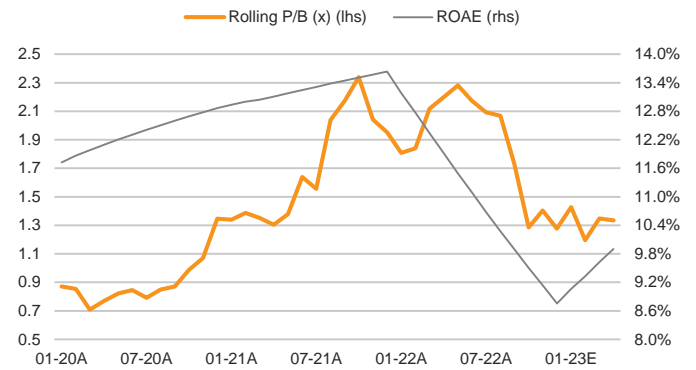
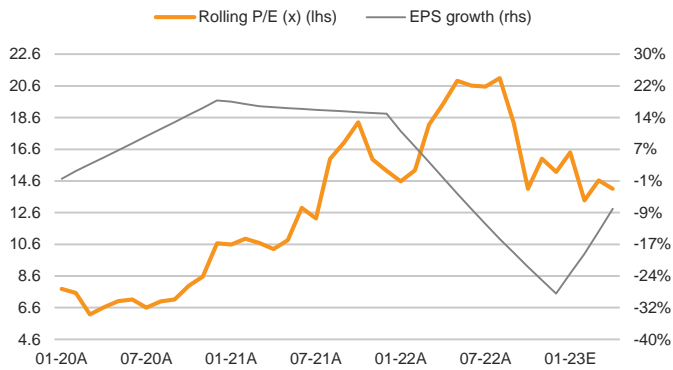
SOURCE: VNDIRECT Research, Company reports

**Figure 34: Key financial metrics for FY23-FY25F**

Key Financial Forecasts	FY20	FY21	FY22	FY23F	FY24F	FY25F
Retention ratio	67%	56%	48%	50%	53%	56%
yoy	-485bps	-1040bps	-768bps	155bps	290bps	314bps
Loss ratio	35.2%	35.3%	37.7%	39.7%	39.7%	39.6%
yoy	394bps	7bps	247bps	199bps	-1bps	-7bps
Expense ratio	63.7%	62.5%	60.9%	59.9%	59.8%	59.8%
yoy	-381bps	-119bps	-160bps	-99bps	-9bps	-3bps
Combined ratio	98.9%	97.8%	98.6%	99.6%	99.5%	99.4%
yoy	14bps	-112bps	86bps	100bps	-10bps	-10bps
Investment yields	7.7%	7.6%	4.9%	8.0%	7.9%	7.7%
yoy	90bps	-11bps	-267bps	312bps	-13bps	-13bps
ROA	3.67%	3.66%	1.98%	2.57%	2.46%	2.31%
yoy	63bps	-1bps	-167bps	59bps	-11bps	-14bps
ROE	13.1%	13.5%	8.6%	11.8%	11.4%	11.0%
yoy	259bps	36bps	-488bps	321bps	-46bps	-37bps
Solvency margin ratio	172%	134%	190%	179%	164%	152%

SOURCE: VNDIRECT Research, Company reports

## Valuation



## Income statement

(VNDbn)	12-22A	12-23E	12-24E
<b>Net premium revenue</b>	<b>3,773</b>	<b>4,497</b>	<b>5,367</b>
Revenue from portfolio acquisitions			
<b>Total insurance premium revenue</b>	<b>3,773</b>	<b>4,497</b>	<b>5,367</b>
<b>Net investment income</b>	<b>161</b>	<b>290</b>	<b>309</b>
Net other income	2	0	0
<b>Total operating income</b>	<b>3,936</b>	<b>4,787</b>	<b>5,676</b>
Claims, maturities & surrenders	(1,019)	(1,301)	(1,593)
Management fees	(542)	(655)	(792)
Other operating costs	(2,175)	(2,529)	(2,962)
<b>Cash operating costs</b>	<b>(3,736)</b>	<b>(4,485)</b>	<b>(5,348)</b>
Exceptional operating costs			
Transfer to policyholder reserves			
Change in technical provisions			
Total costs x depn & amortn	(3,736)	(4,485)	(5,348)
<b>Operating EBITDA</b>	<b>200</b>	<b>303</b>	<b>327</b>
Income from associates			
<b>Pre-tax profit</b>	<b>200</b>	<b>303</b>	<b>327</b>
Tax expense	(41)	(61)	(65)
<b>Profit after tax</b>	<b>159</b>	<b>242</b>	<b>262</b>
Minority interest			
<b>Net profit</b>	<b>159</b>	<b>242</b>	<b>262</b>
Adj. net profit to ordinary	159	242	262
Ordinary dividends			
<b>Retained earnings</b>	<b>159</b>	<b>242</b>	<b>262</b>

## Balance sheet

(VNDbn)	12-22A	12-23E	12-24E
Cash at bank	92	31	31
Short term investments	1,799	1,829	1,972
<b>Total current assets</b>	<b>1,890</b>	<b>1,860</b>	<b>2,002</b>
Total investments	1,813	2,111	2,256
<b>Fixed assets</b>	<b>398</b>	<b>401</b>	<b>399</b>
Intangible assets	27	27	27
<b>Total other assets</b>	<b>4,417</b>	<b>5,342</b>	<b>6,538</b>
<b>Total assets</b>	<b>8,545</b>	<b>9,742</b>	<b>11,223</b>
Short-term debt	0	0	0
Customer deposits	24	25	26
Accounts payable	459	474	497
Taxes payable	46	47	50
Payable to employees	144	148	156
Other current liabilities	1,799	1,859	1,951
<b>Total current liabilities</b>	<b>2,471</b>	<b>2,553</b>	<b>2,679</b>
Total long-term debt	0	0	0
Other liabilities	4,182	5,055	6,148
<b>Total non-current liabilities</b>	<b>4,182</b>	<b>5,055</b>	<b>6,148</b>
<b>Shareholders' equity</b>	<b>1,892</b>	<b>2,134</b>	<b>2,396</b>
Minority interest	0	0	0
<b>Total equity</b>	<b>1,892</b>	<b>2,134</b>	<b>2,396</b>
<b>Total liabilities &amp; equity</b>	<b>8,545</b>	<b>9,742</b>	<b>11,223</b>

	12-22A	12-23E	12-24E
<b>Growth rate (yoy)</b>			
Net premium income growth	42.1%	19.2%	19.4%
Net investment income growth	(30.2%)	80.6%	6.3%
Pretax profit growth	(28.7%)	51.1%	8.2%
Net profit growth	(28.8%)	51.8%	8.2%
<b>Share value</b>			
Basic EPS (VND)	969	1,472	1,593
BVPS (VND)	11,507	12,979	14,572
DPS (VND)	0	0	0

## Key ratios

	12-22A	12-23E	12-24E
Reinsurance ratio	43.8%	48.2%	45.7%
Retention ratio	78.8%	71.2%	72.8%
Claims ratio	27.0%	28.9%	29.7%
Expense ratio	72.0%	70.8%	70.0%
Combined ratio	99.0%	99.7%	99.6%
<b>Profitability</b>			
ROAA	2.1%	2.6%	2.5%
ROAE	8.8%	12.0%	11.6%
Dividend payout ratio	0.0%	0.0%	0.0%

Source: VND RESEARCH

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## RECOMMENDATION FRAMEWORK

### Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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