

# Bangkok Life Assurance - BLA

## Insurance premium growth cycle seen past peak

### THAILAND | INSUR | COMPANY UPDATE

#### BLOOMBERG BLA TB | REUTERS BLA.BK

- The growth cycle in insurance premiums seems to have already passed its peak in 1HFY14.
- BLA posted up to 47% y-y drop in 1HFY14 net profit to Bt1.3bn. On a full-year basis, our forecast puts its FY14 net profit at Bt4.2bn, down 4.2% y-y.
- The stock dividend payment would strengthen capital base but it also comes at a price of a dilution effect.
- Rolling forward our valuation to FY15, we set a target price of Bt90/share for BLA with post-XD target of Bt64/share. At current trading levels, we call BLA shares an 'ACCUMULATE'.

BLA reported up to 64% y-y rise in 1HFY14 total premium income to Bt37bn driven largely by savings-based insurance product *BLA Gain 1* in 1QFY14, which made BLA as the country's top insurer in terms of total premiums in 1QFY14.

Following results announcement, BLA also declared an interim dividend of Bt0.45/share, comprising (i) a cash dividend of Bt0.05/share and (ii) a 5-for-2 stock dividend.

#### How we view this

The strong growth in insurance premiums in 1HFY14 largely stemmed from savings based insurance products, which made it necessary for BLA to set aside high provisions and caused it to suffer losses from underwriting. For this reason, we see scope for BLA to adjust its product mix towards other types of high-margin insurance policies in 2HFY14 and the possibility of strong growth in insurance premiums as seen in 1HFY14 is also ruled out.

Due largely to extra provisions in 2QFY14, BLA posted up to 47% y-y drop in 1HFY14 net profit to Bt1.3bn. We expect provisions to return to normalized levels in 2HFY14. On a full-year basis, we estimate BLA will achieve FY14 net profit of Bt4.2bn, down 4% y-y.

#### Investment Action

Rolling forward our valuation to FY15 and reflecting a switch in valuation methodology to GGM, we set a target price of Bt90/share for BLA with post-XD target of Bt64/share. At current trading levels, we call BLA shares an 'ACCUMULATE.'

#### Key Financial Summary

| FYE Dec           | FY11   | FY12   | FY13   | FY14F  | FY15F  |
|-------------------|--------|--------|--------|--------|--------|
| Revenue (Btmn)    | 31,067 | 34,128 | 38,795 | 48,494 | 53,343 |
| NPAT, adj. (Btmn) | 3,417  | 3,724  | 4,381  | 4,196  | 5,322  |
| EPS, adj. (Bt)    | 2.85   | 3.09   | 3.62   | 2.47   | 3.12   |
| P/E (X), adj.     | 29.6   | 27.3   | 23.3   | 34.1   | 27.0   |
| BVPS (Bt)         | 11.19  | 16.16  | 18.37  | 15.15  | 17.72  |
| P/B (X)           | 7.5    | 5.2    | 4.6    | 5.6    | 4.8    |
| DPS (Bt)          | 0.72   | 0.72   | 0.91   | 0.62   | 0.75   |
| Div. Yield (%)    | 0.9%   | 0.9%   | 1.1%   | 0.7%   | 0.9%   |

Source: Bloomberg, PSR est.

\*\*Multiples and yields are based on latest closing price

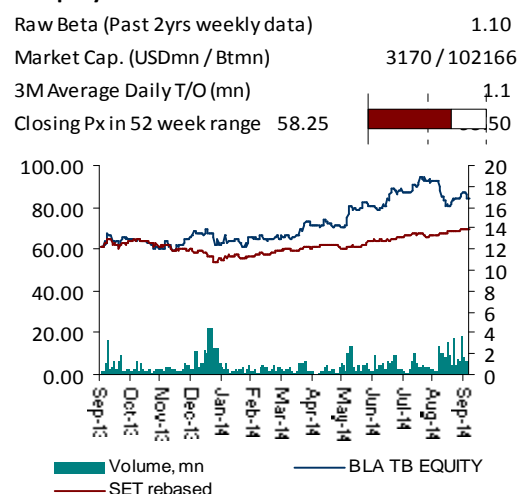
Rating: **Accumulate**  
Unchange

Target Price (Bt) **90.00**  
Forecast Dividend (Bt) 0.75  
Closing Price (Bt) 84.25  
Potential Upside **7.7%**

#### Company Description

BLA's core business is life insurance. At present, the Company operates 2 principal types of life insurance business, namely ordinary life insurance and group life insurance. Its major and strategic shareholders are Bangkok Bank Public Company Limited and Nippon Life Insurance Company, which is incorporated in Japan.

#### Company Data



| Major Shareholders as of              | 25/8/14 | (%)  |
|---------------------------------------|---------|------|
| 1. MITSUBISHI UFJ GLOBAL CUSTODY S.A. |         | 24.4 |
| 2. Wattanasophonpanich Co.LTD.        |         | 13.1 |
| 3. Bangkok Bank plc.                  |         | 7.7  |

#### CG Report - 2013



(Excellent)

#### Valuation Method

P/B'15 (3.6x)

#### Analyst

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**Growth cycle in insurance premiums seems to have already passed its peak in 1HFY14**

BLA reported up to 64% y-y rise in total premium income to Bt37bn in 1HFY14 driven largely by savings-based insurance product *BLA Gain 1* in 1QFY14, which made BLA as the country's top insurer in terms of total premiums in 1QFY14.

Note that the *BLA Gain 1* is a savings-based insurance product which is easily sellable but offers low margins as it is necessary to set aside high provisions. The strong growth in savings based insurance products also caused BLA to suffer losses from underwriting in 1HFY14. For this reason, we see scope for BLA to adjust its product mix towards other types of high-margin insurance policies in 2HFY14 and the possibility of strong growth in insurance premiums as seen in 1HFY14 is also ruled out.

**1HFY14 net profit down as much as 47% y-y to Bt1.3bn, FY14 profit seen at Bt4.2bn, down 4.2% y-y**

BLA posted up to 47% y-y drop in 1HFY14 net profit to Bt1.3bn from Bt2.4bn in 1HFY13 due chiefly to extra provisions in 2QFY14. We expect its provisions to return to normalized levels in 2HFY14. Due to the high level of provisions in 2QFY14, we estimate BLA will see its FY14 net profit drop 4% y-y to Bt4.2bn.

**Stock dividend payment will strength capital base but comes at price of dilution effect**

BLA board on Aug 8, 2014 approved an interim dividend of Bt0.45/share, comprising (i) a cash dividend of Bt0.05/share and (ii) a 5-for-2 stock dividend, equivalent to a cash dividend of Bt0.40/share. The stock dividend payment would strengthen its capital base and maintain shareholder equity levels. The uncertainty over capital rules may also lead BLA to resort to the option of stock dividend payment in the future. However, it comes at a price as the increasing number of shares as a result of stock dividend payout would cause around 40% dilution. The XD date is Oct. 8, 2014.

**'ACCUMULATE' rating with FY15 target price of Bt90/share and post-XD target of Bt64/share**

Rolling forward our valuation to FY15 and reflecting a switch in valuation methodology from embedded value (EV) and value of new business (VNB) multiplier to Gordon Growth Model (GGM) in order to compare with other insurance firms which have no EV and VNB available, we set a target price of Bt90/share for BLA with post-XD target of Bt64/share. The GGM-based target is equivalent to a P/BV multiple of 3.6x. At current trading levels, we call BLA shares an 'ACCUMULATE.'

| FYE Dec   | FY11          | FY12          | FY13          | FY14F         | FY15F         |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Income Statement (Btmn)</b>                  |               |               |               |               |               |
| Net earned premium                              | 31,067        | 34,128        | 38,795        | 48,494        | 53,343        |
| Life policy reserve increase from previous year | 20,197        | 22,873        | 25,357        | 33,218        | 35,740        |
| <b>Net premium</b>                              | <b>10,870</b> | <b>11,255</b> | <b>13,438</b> | <b>15,276</b> | <b>17,603</b> |
| Underwriting expense                            | 9,728         | 11,094        | 13,939        | 17,361        | 19,097        |
| Profit from insurance                           | 1,142         | 161           | (501)         | (2,085)       | (1,494)       |
| Other income                                    | 5,040         | 6,185         | 7,640         | 9,643         | 10,744        |
| <b>Net revenue</b>                              | <b>6,182</b>  | <b>6,346</b>  | <b>7,139</b>  | <b>7,558</b>  | <b>9,251</b>  |
| Operating expense                               | 1,339         | 1,582         | 1,828         | 2,313         | 2,598         |
| <b>Profit Before Tax</b>                        | <b>4,842</b>  | <b>4,764</b>  | <b>5,311</b>  | <b>5,245</b>  | <b>6,653</b>  |
| Taxation  | 1,425         | 1,041         | 930           | 1,049         | 1,331         |
| <b>Profit After Tax</b>                         | <b>3,417</b>  | <b>3,724</b>  | <b>4,381</b>  | <b>4,196</b>  | <b>5,322</b>  |
| Non-controlling Interest                        | 0             | 0             | 0             | 0             | 0             |
| <b>Net income, reported</b>                     | <b>3,417</b>  | <b>3,724</b>  | <b>4,381</b>  | <b>4,196</b>  | <b>5,322</b>  |
| <b>Net income, adj.</b>                         | <b>3,417</b>  | <b>3,724</b>  | <b>4,381</b>  | <b>4,196</b>  | <b>5,322</b>  |

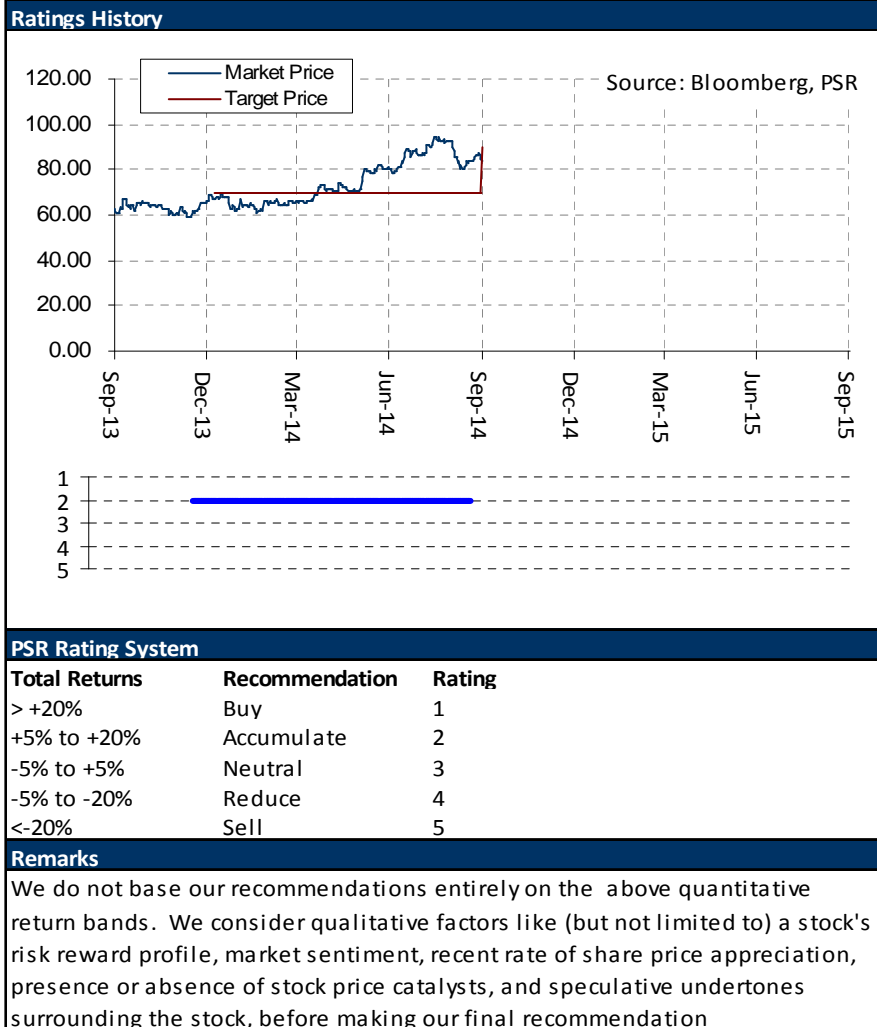
| FYE Dec                    | FY11  | FY12  | FY13  | FY14F | FY15F |
|----------------------------|-------|-------|-------|-------|-------|
| <b>Per share data (Bt)</b> |       |       |       |       |       |
| EPS, reported              | 2.85  | 3.09  | 3.62  | 2.47  | 3.12  |
| EPS, a dj.                 | 2.85  | 3.09  | 3.62  | 2.47  | 3.12  |
| DPS                        | 0.72  | 0.72  | 0.91  | 0.62  | 0.75  |
| BVPS                       | 11.19 | 16.16 | 18.37 | 15.15 | 17.72 |

| FYE Dec                                 | FY11  | FY12   | FY13    | FY14F  | FY15F  |
|---|-------|--------|---------|--------|--------|
| <b>Valuation Ratios</b>                 |       |        |         |        |        |
| P/E (X), a dj.**                        | 29.6  | 27.3   | 23.3    | 34.1   | 27.0   |
| P/B (X), a dj.**                        | 7.5   | 5.2    | 4.6     | 5.6    | 4.8    |
| Dividend Yield (%)                      | 0.9%  | 0.9%   | 1.1%    | 0.7%   | 0.9%   |
| <b>Growth &amp; Margins (%)</b>         |       |        |         |        |        |
| <b>Growth</b>                           |       |        |         |        |        |
| Net earned premium                      | 20.1% | 9.9%   | 13.7%   | 25.0%  | 10.0%  |
| Profit from insurance                   | 29.8% | -85.9% | -410.8% | 316.1% | -28.4% |
| Other income                            | 28.9% | 22.7%  | 23.5%   | 26.2%  | 11.4%  |
| Net revenue                             | 29.1% | 2.7%   | 12.5%   | 5.9%   | 22.4%  |
| Operating expense                       | 11.8% | 18.1%  | 15.6%   | 26.5%  | 12.3%  |
| Net income                              | 22.2% | 9.0%   | 17.6%   | -4.2%  | 26.9%  |
| <b>Margins</b>                          |       |        |         |        |        |
| ROI                                     | 5.2%  | 5.0%   | 5.0%    | 4.9%   | 4.9%   |
| <b>Key Ratios</b>                       |       |        |         |        |        |
| ROE (%)                                 | 28.1% | 22.6%  | 21.0%   | 17.5%  | 19.0%  |
| ROA (%)                                 | 3.4%  | 2.9%   | 2.8%    | 2.2%   | 2.4%   |
| Reserve/Net earned premium              | 65.0% | 67.0%  | 65.4%   | 68.5%  | 67.0%  |
| Reserve&Benefit paid/Net earned premium | 82.3% | 86.2%  | 90.1%   | 90.5%  | 89.0%  |
| Opex/Net earned premium (%)             | 4.3%  | 4.6%   | 4.7%    | 4.8%   | 4.9%   |
| D/E ratio (X)                           | 7.4   | 6.4    | 6.7     | 7.0    | 7.1    |

Source: Company Data, PSR est

\*\*Based on latest closing price

| FYE Dec                           | FY11           | FY12           | FY13           | FY14F          | FY15F          |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Balance Sheet (Btmn)</b>       |                |                |                |                |                |
| Cash                              | 2,737          | 866            | 1,331          | 1,733          | 2,079          |
| Accrued investment income         | 1,376          | 1,500          | 1,863          | 1,676          | 1,509          |
| Premium receivables               | 2,313          | 1,613          | 1,840          | 1,932          | 2,028          |
| Reinsurance assets                | 332            | 510            | 790            | 830            | 871            |
| Investment assets                 | 103,082        | 134,979        | 161,126        | 193,662        | 232,394        |
| Loans                             | 2,113          | 2,649          | 3,526          | 3,784          | 4,541          |
| Property, buildings and equipment | 306            | 305            | 327            | 325            | 323            |
| Other assets                      | 201            | 1,145          | 1,433          | 1,474          | 1,517          |
| <b>Total Assets</b>               | <b>112,459</b> | <b>143,567</b> | <b>172,234</b> | <b>205,416</b> | <b>245,263</b> |
| Income tax payable                | 739            | 582            | 257            | 270            | 284            |
| Amount due to reinsurers          | 267            | 400            | 450            | 473            | 496            |
| Life policy reserve               | 88,386         | 111,259        | 136,616        | 160,566        | 191,877        |
| Premium reserve                   | 1,085          | 1,078          | 1,021          | 1,738          | 2,077          |
| Other insurance liabilities       | 7,269          | 7,709          | 7,779          | 11,469         | 13,705         |
| Other liabilities                 | 1,283          | 3,075          | 3,847          | 5,179          | 6,564          |
| <b>Total liabilities</b>          | <b>99,028</b>  | <b>124,103</b> | <b>149,971</b> | <b>179,694</b> | <b>215,002</b> |
| Share capital                     | 1,200          | 1,205          | 1,212          | 1,697          | 1,708          |
| Retained earnings                 | 7,054          | 10,283         | 13,747         | 16,779         | 21,130         |
| Other reserves                    | 2,478          | 5,153          | 4,391          | 4,391          | 4,523          |
| <b>Shareholder Equity</b>         | <b>13,431</b>  | <b>19,465</b>  | <b>22,264</b>  | <b>25,722</b>  | <b>30,261</b>  |
| Non-controlling interest          | 0              | 0              | 0              | 0              | 0              |
| <b>Total Equity</b>               | <b>13,431</b>  | <b>19,465</b>  | <b>22,264</b>  | <b>25,722</b>  | <b>30,261</b>  |



| Industry Group Name                  | Sector Name                            | Sector Index |
|--------------------------------------|--|--------------|
| Agro & Food Industry<br>[AGRO]       | Agribusiness                           | AGRI         |
|                                      | Food & Beverage                        | FOOD         |
| Consumer Products<br>[CONSUMP]       | Fashion                                | FASHION      |
|                                      | Home & Office Products                 | HOME         |
|                                      | Personal Products & Pharmaceuticals    | PERSON       |
| Financials<br>[FINCIAL]              | Banking                                | BANK         |
|                                      | Finance & Securities                   | FIN          |
|                                      | Insurance                              | INSUR        |
| Industrials<br>[INDUS]               | Automotive                             | AUTO         |
|                                      | Industrail Materials & Machinery       | IMM          |
|                                      | Packaging                              | PKG          |
|                                      | Paper & Printing Materials             | PAPER        |
|                                      | Petrochemicals & Chemicals             | PETRO        |
|                                      | Steel                                  | STEEL        |
| Property & Construction<br>[PROPCON] | Construction Materials                 | CONMAT       |
|                                      | Construction Services                  | CONS         |
|                                      | Property Development                   | PROP         |
|                                      | Property Fund & REITs                  | FP&REIT      |
| Resources<br>[RESOURC]               | Energy & Utilities                     | ENERG        |
|                                      | Mining                                 | MINE         |
| Services<br>[SERVICE]                | Commerce                               | COMM         |
|                                      | Media & Publishing                     | MEDIA        |
|                                      | Health Care Services                   | HEALTH       |
|                                      | Tourism & Leisure                      | TOURISM      |
|                                      | Professionals Services                 | PROF         |
|                                      | Transportation & Logistics             | TRANS        |
| Technology<br>[TECH]                 | Electronic Components                  | ETRON        |
|                                      | Information & Communication Technology | ICT          |

**Fundamental:**

| <b>Name</b>                      | <b>Analyst Reg No.</b>                   | <b>Tel</b>       | <b>Sector</b>                                |
|----------------------------------|--|------------------|--|
| Sasikorn Charoensuwan, CFA, CAIA | Capital Market Investment Analyst#9744   | 662 635 1700#480 | Consumer, Commerce                           |
| Rutsada Tweesaengsakulthai       | Securities Investment Analyst#17972      | 662 635 1700#482 | ICT, Energy, Health Care                     |
| Danai Tunyaphisitchai, CFA       | Capital Market Investment Analyst #2375  | 662 635 1700#481 | Construction Materials, Property Development |
| Naree Apisawattakan              | Securities Investment Analyst #17971     | 662 635 1700#484 | Agro & Food, Electronics                     |
| Siam Tiyanont                    | Securities Investment Analyst #17970     | 662 635 1700#483 | Transportation, Media & Publishing, Tourism  |
| Ornmongkol Tantitanatorm         | Capital Market Investment Analyst #34100 | 662 635 1700#491 | Automotive, Energy, Packaging                |
| Adisorn Muangparnchon            | Securities Investment Analyst #18577     | 662 635 1700#497 | Banking, Securities & Finance, Insurance     |
| Chantaramanee Tavivorakiat       | Capital Market Investment Analyst #46866 | 662 635 1700#488 |  |
| Vichuda Siriployprakray          | Securities Investment Analyst #55956     | 662 635 1700#525 |  |
| Suthanuch Chaisumrej             | Assistant Analyst                        |                  |  |
| Chitphan Kwanchit                | Assistant Analyst                        |                  |  |

**Strategy:**

|                         |  |                  |
|-------------------------|--|------------------|
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| Chutikarn Santimetvirul | Derivatives Investment Analyst #37928    | 662 635 1700#491 |
| Werajak Jungkiatkajorn  | Capital Market Investment Analyst #28087 | 662 635 1700#495 |
| Rittiporn Songsermsawad | Assistant Analyst                        |                  |
| Phoobate Wiriyayuttama  | Assistant Analyst                        |                  |

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|                       |  |                  |
|-----------------------|--|------------------|
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| Kanoksak Vutipan      | Capital Market Investment Analyst #32423 | 662 635 1700#485 |






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| Sutiporn Oupkaew            |
| Sornsawan Chimklin          |

**Translation:**

|                       |
|-----------------------|
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| Naowarat Angurasuchon |

**Results Presentation**

| <b>Score Range</b> | <b>Number of Logo</b>   |
|--------------------|---|
| Less than 50       | No logo given   |
| 50 - 59            |  |
| 60 - 69            |  |
| 70 - 79            |  |
| 80 - 89            |  |
| 90 - 100           |  |

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**Bangkok Offices**

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| Srinakarindr   | 17th Fl., Modernform Tower Tel : 0 2722 8344-53                 |
| Viphavadi      | 15th Fl., Lao Peng Nguan Tower 1 Tel : 0 2618 8400              |
| Yaowarat       | 19th Fl., Kanchanadhat Bldg. Tel : 0 2622 7833                  |
| Bangkapi 1     | 8th Fl., The Mall Office Tower-Bangkapi Tel : 0 2363 3263       |
| Bangkapi 2     | 9th Fl., The Mall Office Tower-Bangkapi Tel : 0 2363 3269       |
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| Khon Kaen - Rim Bueng    | 3rd Fl., Arokaya Bldg., Tel : 0 4322 6026                 |
| Phisanulok               | 2nd Fl., Thai Sivarat Bldg., Tel : 0 5524 3646            |
| Had Yai                  | 4th Fl., Southland Rubber Bldg., Tel : 0 7423 4095-99110  |
| Had Yai - Petkasem       | 3rd Fl., Unit 3D, Redar Group Bldg., Tel : 0 7422 3044    |
| Suratthan                | 62/9 Donnok Rd., Tel : 077 206 131                        |
| Chumporn Investor Center | 25/45 Krom Luang Chumporn Rd., Tel : 0 7757 0652-3        |

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| TURKEY         | Hak Menkul Kıymetler A.Ş Dr.Cemil Bengü Cad. Tel: (+90) (212) 296 84 84 (pbx)<br><a href="mailto:hakmenkul@hakmenkul.com.tr">hakmenkul@hakmenkul.com.tr</a>   |
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