

Bangkok Life Assurance

BLA TB / BLA.BK

14 August 2014

Back to strong growth

Investment thesis

We believe that BLA will deliver strong earnings growth in 2H14 after heavy provision-setting for interest rate risk and sales of single premium products in 1H14. BLA aims to increase sales of high-margin products, such as long-term endowments, whole life and credit life policies. Such products require lighter provisioning for the life policy reserve than single-premium endowments. We forecast that earnings will dive 36% YoY to Bt4bn in FY14, then expand 37% to Bt5.4bn in FY15. Our BUY rating stands with a YE15 target price of Bt111.50 (before dilution caused by a stock dividend), pegged to embedded value of Bt45.89/share and total VNB of Bt65.68.

1H14 FYP already surpassed FY14 FYP target

After delivering solid 1H14 expansion of 163% YoY for FYPs (driven by single-premium endowment products) and 64% YoY for total premiums, BLA has switched focus to long-term policies (Gain 1st 263 and Gain 1st 245), whole life products and credit life. The strategic shift is aimed at building better profitability through high-margin products and lighter provision-setting. Note that the firm already achieved its ambitious FY14 FYP growth target of 49% in 1H14. We, conservatively, assume FY14 FYP expansion (including single-premium products) of 75% in our model.

Provisioning for the life policy reserve to decline in 2H14

The greater emphasis on long-term endowment products with good margins will mean lighter provisions for the life policy reserve in 2H14 onward. BLA guides that its provisions for the remaining six months of the year will fall to 60-65% of total premiums against 83% in 1H14 (we assume provisions equal to 76% of total premiums in FY14 and 68.5% in FY15). Substantially lighter provisioning in 2H14 would mean significantly higher earnings. We also expect combined ratios of 107% in FY14 and 108% in FY15.

FY14 ROI target of 5%

The SET rose in 2Q14, so BLA is confident that it will achieve FY14 and FY15 ROI of at least 5%. Higher bond yields would present an opportunity for it to accumulate more medium- to long-term bonds. The firm recently invested Bt13bn (9.5% of its investment portfolio) in foreign currency-denominated bonds that yield about 6%.

CAR of 240% supportive of expansion in FY14 and beyond

BLA's current CAR of 240% will support business growth without need for capital-raising for years. The firm announced a stock dividend for 1H14 to preserve its capital base. Note that the Office of the Insurance Commission's minimum CAR requirement is only 140%. Management aims to mitigate re-investment risk by extending the duration of its investment portfolio from eight years to closer to the duration of liabilities of 10.3 years. BLA has sets its policy floor for CAR at 200%.

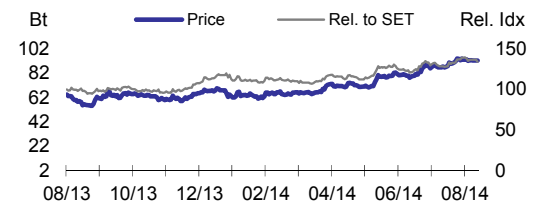
Sector: Insurance Overweight

Rating: BUY

Target Price: Bt111.50

Price (13 August 2014): Bt90.25

Price chart

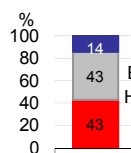


Share price perf. (%)	1M	3M	12M
Relative to SET	3.0	15.6	45.2
Absolute	4.0	26.2	51.0

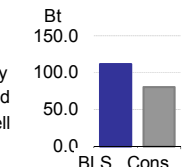
Key statistics

Market cap	Bt109.4bn	USD3.4bn
12-mth price range	Bt53.5/Bt95.5	
12-mth avg daily volume	Bt53m	USD1.7m
# of shares (m)	1,213	
Est. free float (%)	40.8	
Foreign limit (%)	25.0	

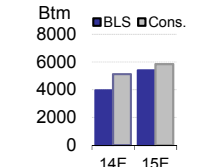
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Total rev (Btm)	46,396	69,714	63,187	67,471
Net profit (Btm)	4,381	3,950	5,400	6,000
Fully diluted EPS (Bt)	3.62	2.31	3.16	3.51
EPS growth (%)	+32.6%	-36.0%	+36.7%	+11.1%
PER (x)	25.0	27.7	20.3	18.2
EV/EBITDA (x)	15.9	20.5	13.9	11.9
PBV (x)	4.41	4.17	3.57	3.10
Dividend (Bt)	0.91	1.00	1.10	1.20
ROA (%)	2.5	1.7	2.0	2.0
Net gearing (x)	6.7	7.4	7.4	7.5
Total loss ratio (%)	65.4	76.0	68.5	68.5
Total premium Mkt (%)	8.8	12.0	10.0	10.0

CG rating



Suwat Bumrungratadom

Securities Fundamental Investment Analyst

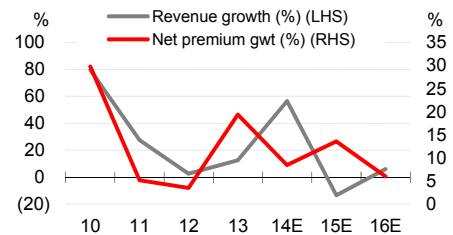
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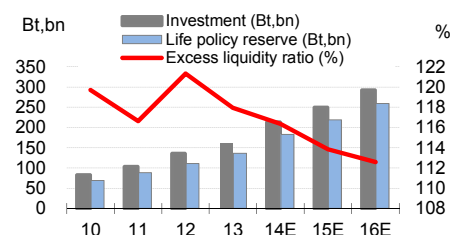
BLA : Financial Tables – Year

PROFIT & LOSS (Btm)					
Insurance premium	34,128	38,795	60,710	52,533	55,685
Less Life policy reserve	(22,873)	(25,357)	(46,140)	(35,985)	(38,144)
Net premium	11,255	13,438	14,571	16,548	17,541
Underwriting expenses	(11,094)	(13,939)	(16,847)	(17,369)	(18,411)
Profit from insurance	161	(501)	(2,277)	(821)	(870)
Revenue on investment	6,204	7,601	9,004	10,654	11,786
Other income/exp.	(28)	39	41	36	38
Net revenue	6,337	7,139	6,769	9,869	10,954
Operating expenses	(1,573)	(1,828)	(2,117)	(3,214)	(3,539)
EBIT	4,764	5,311	4,652	6,655	7,416
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(1,480)	(930)	(702)	(1,255)	(1,416)
Net profit (loss)	3,284	4,381	3,950	5,400	6,000
Reported EPS	2.73	3.62	3.26	4.46	4.95
Fully diluted EPS	2.73	3.62	3.26	4.46	4.95
Core net profit	3,313	4,341	3,909	5,364	5,962
Core EPS	2.75	3.58	3.23	4.43	4.92
EBITDA	4,860	5,407	4,748	6,751	7,511
KEY RATIOS					
Revenue growth (%)	2.5	12.7	56.5	(13.5)	6.0
Gross margin (%)	15.7	15.4	9.7	15.6	16.2
EBITDA margin (%)	12.1	11.6	6.8	10.7	11.1
Operating margin (%)	8.2	9.4	5.6	8.5	8.8
Net margin (%)	8.1	9.4	5.7	8.5	8.9
Core profit margin (%)	8.2	9.4	5.6	8.5	8.8
ROA (%)	2.3	2.5	1.7	2.0	2.0
ROE (%)	16.4	19.7	14.7	17.2	16.7
Commission/Insurance premium	13.3	11.2	9.3	9.0	9.0
Life policy Provision/insurance premium	67.0	65.4	76.0	68.5	68.5
Cost/income	24.8	34.0	34.0	34.0	34.0
Combined ratio	85.0	81.3	107.2	107.7	107.9
BALANCE SHEET (Btm)					
Cash & Equivalent	866	1,331	1,400	1,550	1,750
Total investment in securities	134,979	161,126	212,670	249,031	292,195
Total net loans	2,649	3,526	4,139	4,710	5,338
Premises & equipment (Net)	305	327	400	770	910
Other assets	3,988	5,925	7,779	7,906	7,344
Total assets	142,787	172,234	226,387	263,967	307,537
Life policy reserve	111,259	136,616	182,756	218,742	259,536
Unpaid benefit to life policy	8,787	8,800	13,772	3,101	4,976
Premium received in advance	0	950	0	4,500	4,850
Other liabilities	2,768	3,604	3,028	6,288	2,158
Total liabilities	122,814	149,971	199,556	232,630	271,520
Paid-up capital	1,205	1,212	1,212	1,212	1,212
Share premium	2,759	2,846	2,846	2,846	2,846
Retained earnings	15,945	18,138	22,691	27,279	31,959
Shareholders equity	19,973	22,264	26,832	31,337	36,017
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	142,787	172,234	226,387	263,967	307,537
CASH FLOW (Btm)					
Net income	3,284	4,381	3,950	5,400	6,000
Depreciation and amortization	129	136	143	150	157
Change in working capital	22,996	23,571	46,699	37,090	39,403
FX, non-cash adjustment & others	837	804	805	806	807
Cash flows from operating activities	27,247	28,087	50,792	42,640	45,560
Capex (Invest)/Divest	1	(88)	(73)	(370)	(140)
Others	(28,585)	(27,427)	(49,658)	(42,261)	(42,846)
Cash flows from investing activities	(28,583)	(27,515)	(49,732)	(42,631)	(42,986)
Debt financing (repayment)	200	0	0	0	0
Equity financing	100	809	0	0	0
Dividend payment	(835)	(917)	(1,103)	(1,200)	(1,320)
Others	(28,585)	(27,427)	(49,658)	(42,261)	(42,846)
Cash flows from financing activities	(535)	(107)	(1,103)	(1,200)	(1,320)
Net change in cash	(1,871)	465	(42)	(1,191)	1,254
Free cash flow (Btm)	27,249	28,000	50,718	42,270	45,420
FCF per share (Bt)	22.6	23.1	41.9	34.9	37.5
Insurance data					
FYP (Btm)	7,481	6,818	10,592	9,165	9,715
RYP (Btm)	25,175	28,545	44,346	38,373	40,675
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	34,128	39,079	60,710	52,533	55,685
FYP mkt (%)	7.8	9.7	8.4	7.6	7.2
Total premium Mkt (%)	7.7	8.9	9.6	8.7	8.9

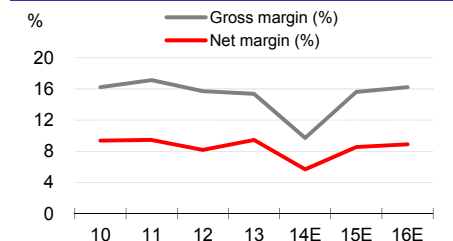
Revenue and net premium growth



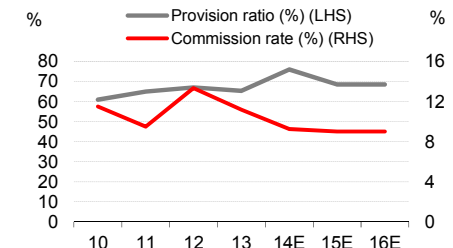
Excess liquidity



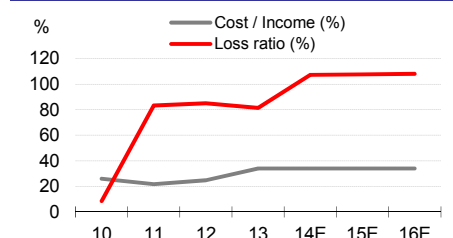
Profit margins



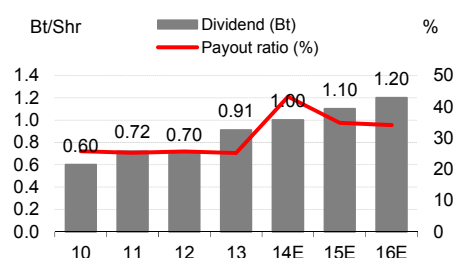
Commission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Net insurance premium revenue	9,095	8,372	8,350	26,712	9,769
Less provision for life policy reserve	5,858	5,446	4,151	22,415	8,099
Revenue realization on premium	3,237	2,926	4,199	4,297	1,670
Underwriting expenses	2,896	3,159	4,519	4,525	3,497
Profit from insurance business	341	(232)	(320)	(228)	(1,828)
Net investment income	1,703	1,909	1,768	2,014	2,153
Gain on investment	173	105	89	8	322
Total revenue from investment	1,876	2,015	1,857	2,022	2,475
Other income	15	(5)	23	9	17
Total revenues	2,232	1,777	1,560	1,803	664
Total operating expenses	455	465	442	496	501
Exceptional items	0	0	0	0	0
EBT	1,777	1,311	1,118	1,307	163
Income tax	324	211	213	211	(6)
Minority Interest	0	0	0	0	0
Net profit	1,453	1,101	905	1,096	169
EPS	1	1	1	1	0
Core profit before tax	1,589	1,212	1,006	1,290	(175)
Core EPS	1	1	1	1	(0)

KEY RATIOS

Premium/life policy reserve (%)	29	25	24	67	23
Life policy provision/Premium (%)	64	65	50	84	83
Claim/life policy (%)	6	6	10	8	6
ROI (%)	5	5	5	5	5
Net margin (%)	13	11	9	4	1
Equity/Life policy reserve (%)	18	17	17	16	15
BV (Bt)	18	18	19	20	20
ROE (%)	27	20	16	20	3
ROA (%)	4	3	2	3	0
D/E (x)	6	6	7	7	7
Cost to Income (%)	20	26	28	28	75

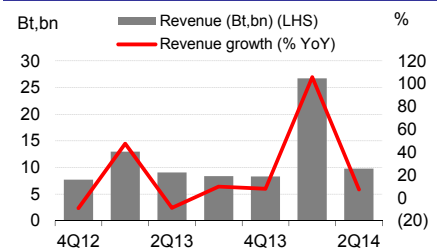
QUARTERLY BALANCE SHEET (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Cash & Equivalent	401	401	1,331	1,810	2,800
Total investment in securities	153,433	157,157	161,126	182,310	190,289
Total net loans	3,014	3,231	3,526	3,645	3,939
Premises & equipment (Net)	299	301	327	336	358
Other assets	6,793	6,295	5,925	8,807	7,618
Total assets	163,941	167,384	172,234	196,908	205,003
Life policy reserve	127,020	132,466	136,616	159,031	168,314
Unpaid benefit to life policy	96	94	8,800	9,033	427
Premium received in advance	1,387	1,437	450	551	504
Other liabilities	13,519	11,420	4,104	4,224	11,438
Total liabilities	142,023	145,418	149,971	172,839	180,683
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,700	2,700	2,700	2,700	2,700
Retained earnings	11,702	12,320	13,225	14,321	13,872
Shareholders equity	21,918	21,966	22,264	24,069	24,320
Minority interests	0	0	0	0	0

Insurance data	2Q13	3Q13	4Q13	1Q14	2Q14
FYP (Btm)	790	717	819	2,861	642
RYP (Btm)	7,907	6,139	6,194	12,251	8,103
SP (Btm)	518	1,641	1,129	11,885	1,154
Total premium (Btm)	9,216	8,498	8,141	26,997	9,899
FYP+SP mkt (%)	3.6	6.3	5.5	29.1	4.3
Total premium Mkt (%)	8.8	7.8	6.9	20.0	8.2

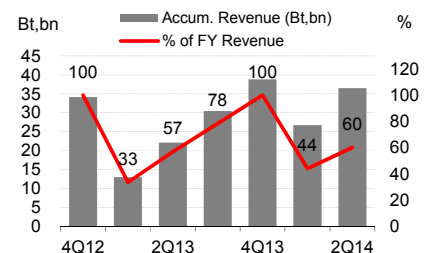
Company profile

Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

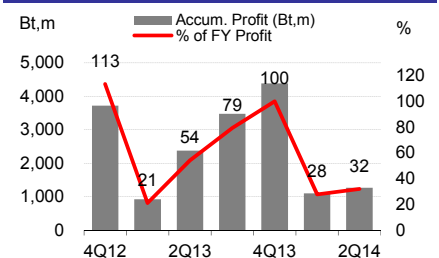
Revenue trend



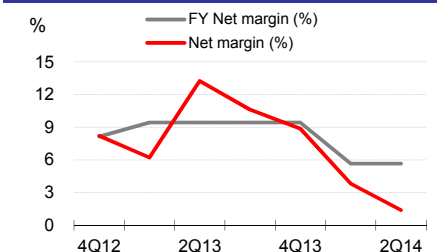
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



ROE

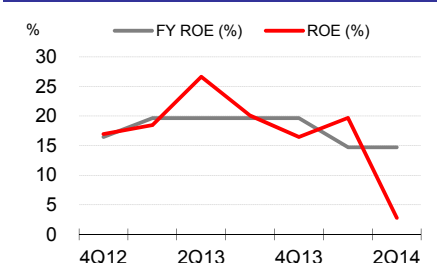
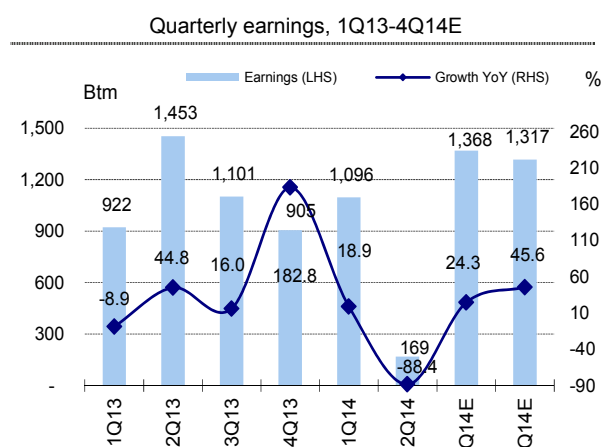
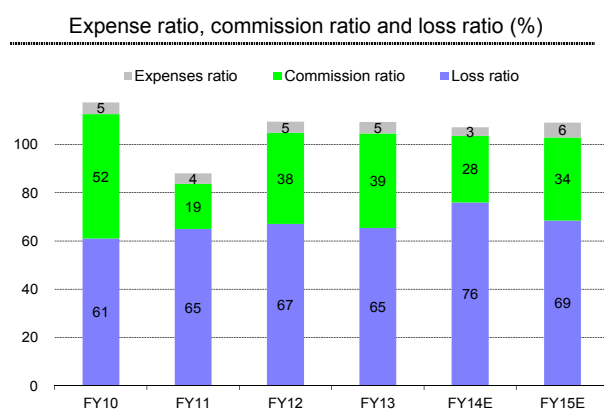


Figure 1: Total life assurance premium market share (%), FY07-1H14

Market share of Total premium (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	1H14
American International Assurances (AIA)	38.9	37.9	33.3	31.0	28.7	26.3	25.0	20.7
Audhya Allianz C.P Life Plc., (AACP)	9.5	6.5	6.1	6.2	6.3	5.8	5.7	4.9
Thai Life Insurance	15.2	14.4	13.7	12.4	12.2	12.5	12.4	11.6
SCB Life Insurance Plc	6.0	6.8	7.5	8.3	9.2	10.7	10.3	9.7
Muang Thai Life Assurance	6.8	7.7	8.3	10.0	11.5	12.5	13.6	15.4
Bangkok Life Assurance Plc.,	6.1	6.7	7.7	8.9	9.6	8.9	8.8	14.4
Krungthai AXA Life Insurance	2.9	4.1	4.9	6.0	6.4	7.4	8.5	9.3
Ocean Life Insurance	4.6	4.3	4.1	3.9	4.0	3.8	3.1	2.6
Prudential Life Assurance (Thailand) Plc.,	0.9	1.1	1.2	1.2	1.3	1.4	2.3	2.9
Others	3.2	4.2	6.6	5.5	4.9	5.5	10.2	8.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100	100

Sources: TLAA and Bualuang estimates

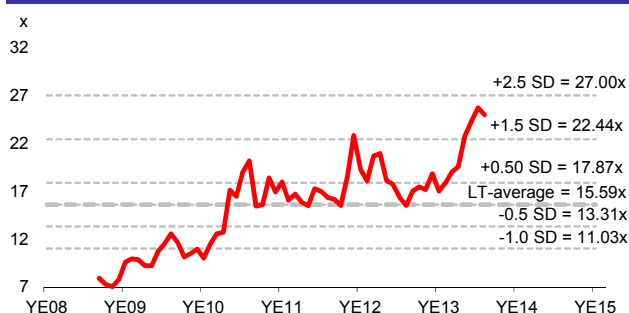
Figure 2: Expense ratio (%), commission ratio (%) and loss ratio, FY10-15E, and quarterly earnings (Btm)


Sources: Company and TLAA

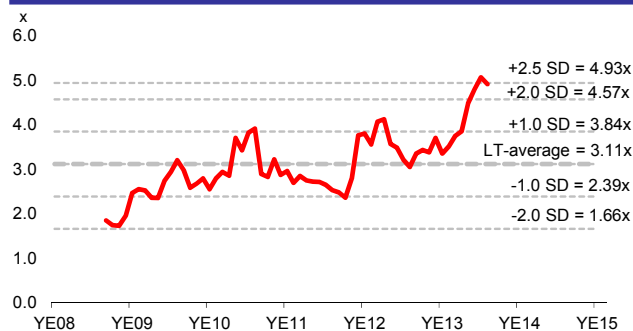
Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)	EPS Growth (%)	PBV (x)	ROE (%)	Div Yield (%)					
	Code	(local curr.)	(US\$ equivalent)	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Ping An Insurance (Group)	601318 CH	CNY43.8	60,807	10.3	8.5	18.7	216	14	12	16.2	16.4	16	17
China Life Insurance	601628 CH	CNY5.4	74,368	14.1	12.2	24.7	15.0	16	14	14.6	13.4	2.5	2.7
China Pacific Insurance (Group)	601601 CH	CNY9.9	31,145	16.3	13.7	20.8	18.9	15	13	11.2	10.6	2.2	2.5
T&D Holdings	8795 JP	JPY1287.5	8,567	110	10.5	-0.7	5.2	0.7	0.7	7.2	7.5	2.0	2.0
Bangkok Life Assurance	BLA TB	THB90.25	3,426	27.7	20.3	-9.8	36.7	4.1	3.5	14.7	17.2	11	12
Thaire Life Assurance	THREL TB	THB16.40	308	219	19.3	17.5	13.3	7.7	6.1	35.4	318	3.2	3.7
Simple average				16.9	14.1	11.8	18.5	2.8	2.4	16.5	16.2	2.1	2.3

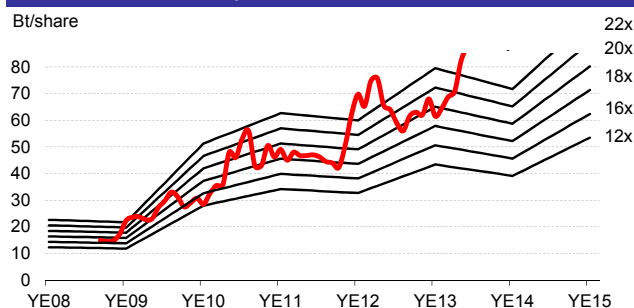
PER band versus SD (next 12 months)



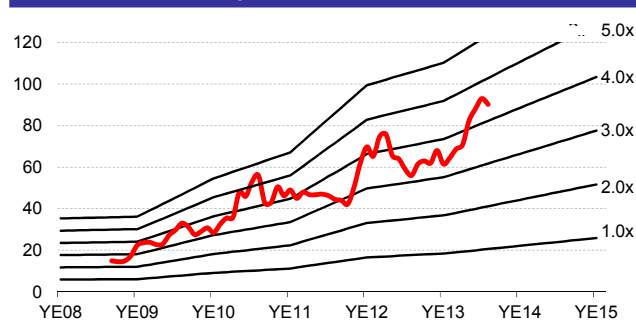
PER band versus SD (next 12 months)



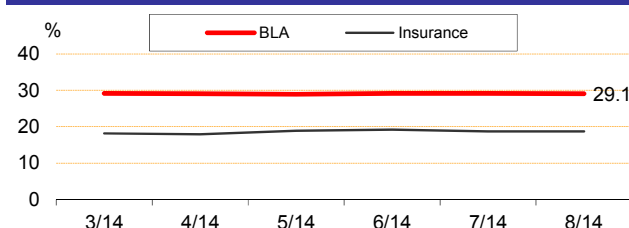
PER band and share price



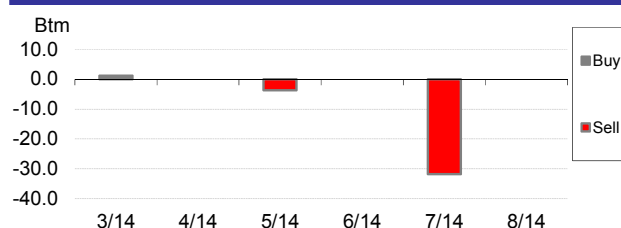
PBV band and share price



Foreign holding



Management trading activities during past six months



Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

Score Range

90 – 100
80 – 89
70 – 79
60 – 69
50 – 59
Below 50

Score Range






No logo given

Description

Excellent
Very Good
Good
Satisfactory
Pass
N/A

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.