

# Bangkok Life Assurance

## Expensive on all counts

### Share price rally is unjustified in our view; maintain SELL

We expect 2Q14 net profit to recover QoQ on normalization of life policy reserves and a rise in equity gains. However, we reiterate our Sell rating as BLA's recent share price rally makes the stock look expensive to regional peers and is not justified, in our opinion, given its low-margin short-duration products and leaner capital to local peers.

### We expect 2Q14 earnings to rise 2% YoY and 36% QoQ to Bt1.48bn

BLA's earnings recovery in 2Q14F should be led by a pick-up in underwriting margin and equity investment gains. Although Thai bond yields fell 14-22bps QoQ in 2Q14, we expect life policy reserves to fall from an 84% peak in 1Q14 as BLA did not aggressively promote single premium policies in 2Q14 and set aside a partial cushion in advance since 1Q14. For investment income, we expect its investment yield to fall QoQ on the drop in bond yields but RoI could surprisingly improve from equity investment gains after the SET rose 8% in 2Q14. BLA might realize some equity profit after unrealized investment gains in shareholder's equity improved to Bt5.2bn in 1Q14 from Bt4.bn in 4Q13.

### Valuation has exceeded fundamentals and is above domestic and regional peers

BLA's share price has risen 32% since May (vs. +7% for SET) and now trades at 2.5x P/EV and 33x implied NB. The rally coincides with a share tender offer of SCB Life by SCB at 2.9x P/EV and 20x P/VNB. Note that BLA stock is not liquid as 85% of shares are owned by related companies and individuals (figure 4). In our view, BLA's current valuation is not justified given its inferior profitability/capital to Thai peers and demanding premium to regional peers (2014F 1.1x P/EV and 1.6x implied NB average for China life sector; 1.9x P/EV and 16x implied NB for AIA).

### Average 2014-15F appraisal value of Bt68; key risks

Our TP is based on an average 2014-15F VNB/share of Bt31 and EV/share of Bt37. Our 18x NB multiple assumes a 12.5% discount rate, above BLA's 10% estimate as VNB is dependent on various assumptions. Key upside risks: faster-than-expected rise in bond yields and improvement in credit life and agent sales channels.

### FINANCIAL SUMMARY

Year	2011	2012	2013	2014F	2015F	2016F
Net written premiums	31,067	34,128	38,795	52,360	58,991	66,529
Net profit (Bt, m)	3,417	3,724	4,381	5,052	6,822	8,506
EPS (Bt)	2.85	3.10	3.62	4.17	5.63	7.02
EPS growth (%)	22.2	9.0	16.5	15.3	35.0	24.7
PER (X)	32.3	29.6	25.4	22.1	16.3	13.1
EV per share (Bt)	21.2	25.5	26.9	35.1	38.8	46.6
P/EV (x)	4.3	3.6	3.4	2.6	2.4	2.0
PBV (X)	8.2	5.7	5.0	4.3	3.6	2.9
DPS (Bt)	0.72	0.72	0.91	1.05	1.42	1.77
Yield (%)	0.8	0.8	1.0	1.1	1.5	1.9

Source: DB TISCO

Note: use average price for historical PER, PBV, yield

## Rating

## SELL

(unchanged)

### 12 month Target Price

Bt68.00

Current Price (05/08/2014)

Bt92.00

Upside/Downside

-26.1%

CG Rating

3

Sector

INSUR

Sector PER (x)

22.1x

### SHARE SUMMARY

Issued shares:	1,212.6m
Par value:	Bt1.0
Market capitalization:	Bt111.6bn
Avg. Daily Turnover:	Bt54.5m
Foreign Limit/Actual (%)	25/0
Free Float:	40.8%
NVDR:	4.2%
Beta (3 years)	1.1x

### TISCO's forecast vs. consensus

EPS (Bt)	TISCO	Consensus	% Diff.
2014F	4.17	4.20	-0.6%
2015F	5.63	4.97	13.2%

### PRICE / PRICE RELATIVE



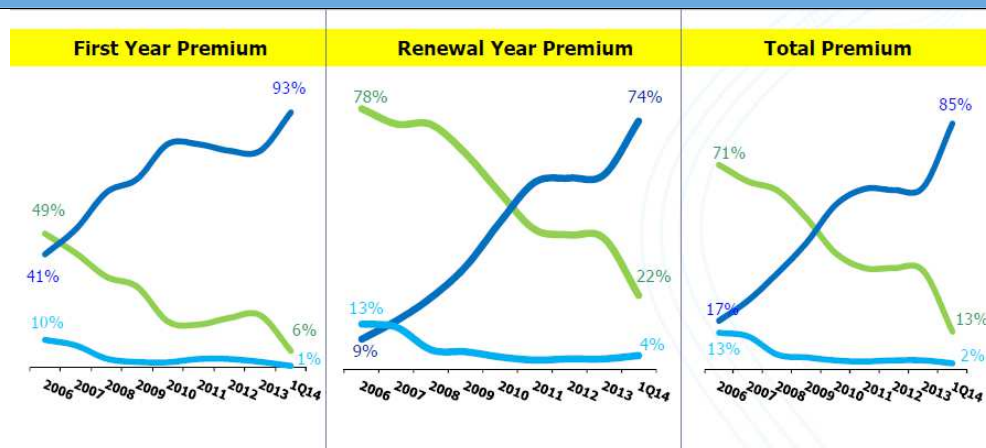
Source: Bloomberg Finance LP

Performance (%)	-1m	-3m	-12m
BLA	3.66	30.96	55.93
SET	1.71	10.87	7.35

Vilailuck Patharavanakul  
Deutsche TISCO Investment Advisory  
(66) 2633 6463  
vilailuck@dbtisco.com

BLA's robust premium growth YTD was led by its low-margin single premium product which was launched to regain market share. In return, BLA accepted a lower underwriting margin (higher life policy reserve) and faster utilization of risk-based capital (RBC). Note that the Office of the Insurance Commission (OIC) tightened the minimum RBC requirement to 140% at the start of last year.

**Figure 1. BLA's channel distribution trend indicates weaker agent channels**



Source: Company data

**Figure 2. BLA's asset-liability duration vs. risk-based capital**



Source: Company data

Hence, the company's earnings outlook would rely more on investment income trends whereas the profit of Thai insurance peers are still driven by both underwriting and investment income. Domestic peers are far more competitive than BLA due to their high-margin products (i.e. credit life of AIA Thailand/SCB Life and whole life of AIA Thailand/MTL) and strong teams of sales agents (AIA Thailand, Thai Life Insurance and MTL).

In our view, there is no good reason to match asset liability duration by shortening asset duration over efforts to widen liability duration. Based on its current strategy, we believe BLA's underwriting business does not deserve to trade at a premium valuation to its domestic or regional peers.

Figure 3. Profitability and RBC comparison (2013)

	Net profit (Bt, bn)	EV (Bt, bn)	VNB (Bt, bn)	RoE	RoA	Risk-based Capital
BLA	4.4	32.6	1.9	21.0%	2.8%	247%
Muang Thai Life	5.9	n.a.	n.a.	26.1%	3.4%	460%
SCB Life	4.7	30.4	4.4	42.1%	3.7%	n.a.

Source: Company data

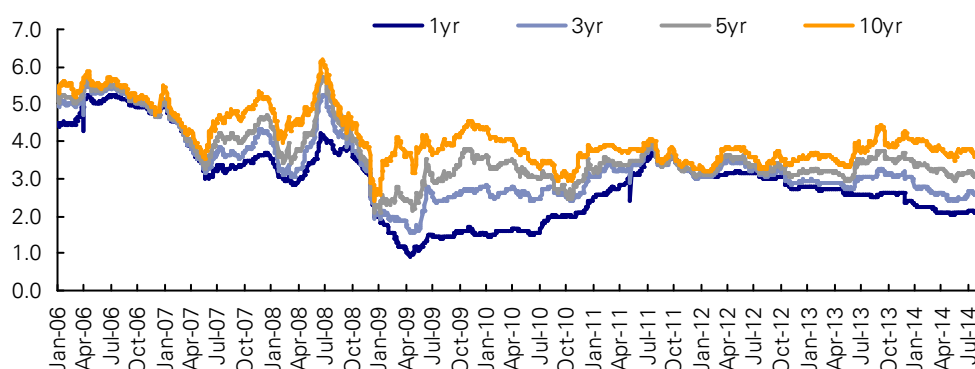
Figure 4. BLA's major shareholders

Mitsubishi UFJ Global S.A.	24.36%	Mr. Chai Sophonpanich	2.31%
Wattana Sophonpanich Co., Ltd	13.16%	Bualuang L-T equity 75/25 fund	2.21%
Bangkok Bank Plc.	7.66%	Mr. Nuankamol Limsong	1.93%
Bangkok Insurance Plc.	4.63%	Mrs. Suchada Leesawastrakul	1.91%
Thai NVDR	3.98%	Bualuang Flexible provident fund	1.12%
Mr. Chatri Sophonpanich	3.77%	Mr. Tritip Arunonchai	1.00%
Chatubut Holding Co., Ltd	3.71%	Bualuang Tossapol fund	0.69%
MSI Holding (Thailand) Co., Ltd	3.37%	Mr. Jirawat Limsong	0.58%
Mr. Cherdchoo Sophonpanich	2.71%	EGAT provident fund managed by BBLAM	0.57%
Bualuang L-T equity fund	2.66%	Bualuang equity provident fund	0.55%
Mr. Somkiat Limsong	2.41%		

Source: SETSMART

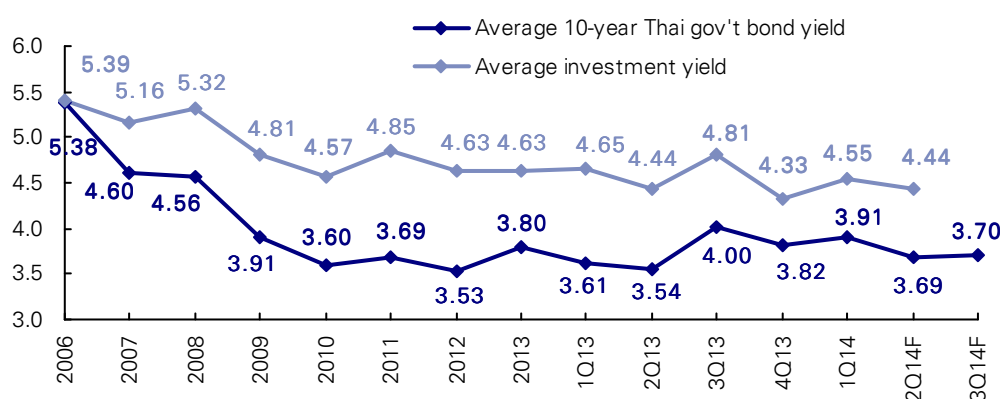
Although we expect bond yields to resume their uptrend in the mid to long term, thereby enhancing BLA's investment income from asset reinvestment into higher yield bonds, the initial impact of the yield rising cycle would hurt the stock market and erode BLA's equity investment gains and adjusted net worth. In the near term, bond yields were still weak in 2Q14 and remained flat in July, indicating that BLA's investment yield may slip in 2Q14.

Figure 5. Thai government bond yields



Source: The Thai Bond Market Association

Figure 6. Thai govt bond yield vs. BLA's investment yield



Source: Company data, The Thai Bond Market Association

Figure 7. 2Q14 earnings preview

Bt, m	2Q14	2Q13	1Q14	%YoY	%QoQ	2012	2011	%YoY
Net Premium Income	8,500	9,095	26,712	-7%	-68%	38,795	34,128	13.7%
Net Investment Income	2,178	1,876	2,022	16%	8%	7,056	5,704	23.7%
Total Revenues	10,687	10,980	28,742	-3%	-63%	46,435	40,312	15.2%
Total Underwriting Expenses	-8,399	-8,754	-26,940	-4%	-69%	-39,296	-33,966	15.7%
Total Operating Expenses	-473	-455	-496	4%	-5%	-1,828	-1,582	15.6%
Total Expenses	-8,872	-9,203	-27,436	-4%	-68%	-41,125	-35,548	15.7%
Net underwriting income	101	341	-228	70%	144%	-501	161	-410.8%
Net Profit Before Taxes	1,816	1,777	1,307	2%	39%	5,311	4,764	11.5%
Income Taxes	-327	-324	-211	1%	55%	-930	-1,041	-10.6%
<b>Net Profit</b>	<b>1,489</b>	<b>1,453</b>	<b>1,096</b>	<b>2%</b>	<b>36%</b>	<b>4,381</b>	<b>3,724</b>	<b>17.6%</b>

Source: TLAA

Our appraisal value of Bt68 is based on an average 2014-15F VNB/share of Bt31 and EV/share of Bt37. Our 18x NB multiple assumes a 12.5% discount rate.

Figure 8. 2014-15F appraisal value

Adjusted net worth (ANW)		Value of new business (VNB)	
2013F shareholder's equity	28,653	2013F new business value	2,052
(1) BVPS (B)	23.6	Number of shares (m)	1,212
		VNB per share (B)	1.7
Value in force (VIF)		Multiplier (x)	18.0
2013F value of in-force	16,153	(3) VNB per share	31.0
No. of shares (m)	1,212		
(2) VIF per share (B)	13.3		
(1)+(2) EV per share (B)	37.0	(1)+(2)+(3) appraisal value (B/share)	68

Source: DB TISCO estimate

The 2013 estimated EV and VNB figures by Ernst & Young are based on a 10% risk discount rate and 5% RoI assumptions. We used a 12.5% risk discount rate as VNB is dependent on various assumptions and 4.6-4.7% RoI assumptions given an extended down cycle for bond yields this year.

If we used a 10% risk discount rate, our 12-month forward appraisal value would only rise to Bt76.6 (instead of Bt68), which still implies 17% downside from the current share price.

Figure 9. P/EV 12-months fwd



Source: Company data, DB TISCO estimate, Bloomberg Finance LP

Figure 10. P/VNB 12-months fwd



Source: Company data, DB TISCO estimate, Bloomberg Finance LP

Figure 11. P/E 12-months fwd



Source: Company data, DB TISCO estimate, Bloomberg Finance LP

Figure 12. P/BV 12-months fwd



Source: Company data, DB TISCO estimate, Bloomberg Finance LP

Figure 13. Regional valuation comparison

01-Aug-14	Price LC	P/EV (Group) (x)			Implied P/EV (Life*) (x)			Implied NB multiple* (x)			NBV* growth			P/E			P/B			ROAE		
		2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
BLA		3.4	2.6	2.4	3.4	2.6	2.4	42.8	35.7	30.4	-2.5%	5.0%	10.0%	25.7	22.2	16.5	5.0	4.3	3.6	21.0%	20.9%	23.8%
China Life	23.0	1.5	1.3	1.2	1.5	1.3	1.2	8.3	5.7	3.1	2.2%	7.3%	11.3%	21.0	16.6	12.6	2.4	2.2	2.0	11.2%	13.9%	16.6%
Ping An	65.4	1.3	1.2	1.0	1.2	1.3	1.1	2.5	3.5	0.8	14.1%	18.2%	18.0%	14.8	13.8	11.7	2.3	2.1	1.8	16.4%	17.1%	17.8%
CPIC	30.0	1.5	1.4	1.3	1.6	1.5	1.3	7.5	6.0	3.4	6.2%	14.1%	14.9%	23.5	19.6	15.9	2.2	2.2	2.0	9.5%	11.1%	13.0%
NCI	27.9	1.1	1.0	0.8	1.1	1.0	0.8	1.2	-0.5	-2.6	1.5%	9.2%	12.1%	15.7	12.5	9.5	1.8	1.7	1.4	11.8%	13.7%	16.2%
CTIH	16.9	0.8	0.9	0.8	0.8	0.9	0.8	-3.0	-1.0	-3.3	11.8%	22.1%	18.1%	21.8	22.6	17.7	2.1	2.1	1.9	8.5%	9.5%	11.3%
PICC Group	3.4	1.4	1.3	1.1	0.4	0.5	0.4	-4.3	-4.3	-4.9	-4.6%	4.8%	7.7%	14.1	12.7	11.3	1.6	1.5	1.3	11.9%	12.1%	12.2%
<b>China average</b>		<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>0.9</b>	<b>2.1</b>	<b>1.6</b>	<b>-0.6</b>	<b>5.2%</b>	<b>12.6%</b>	<b>13.7%</b>	<b>19.4</b>	<b>17.0</b>	<b>13.5</b>	<b>2.1</b>	<b>2.1</b>	<b>1.8</b>	<b>11.5%</b>	<b>13.0%</b>	<b>15.0%</b>
AIA	42.1	1.9	1.8	1.6	1.9	1.8	1.6	21.2	16.1	11.9	25.4%	19.3%	15.8%	23.1	22.6	20.0	2.6	2.5	2.3	10.9%	11.3%	11.8%
<b>Average</b>		<b>1.4</b>	<b>1.3</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>4.8</b>	<b>3.7</b>	<b>1.2</b>	<b>8.1%</b>	<b>13.6%</b>	<b>14.0%</b>	<b>20.0</b>	<b>18.0</b>	<b>14.6</b>	<b>2.2</b>	<b>2.1</b>	<b>1.9</b>	<b>11.4%</b>	<b>12.8%</b>	<b>14.4%</b>
PICC P&C	12.6	2.3	2.1	1.8				12.7	13.1	11.6				12.7	13.1	11.6	2.3	2.1	1.8	20.5%	16.8%	16.8%

Source: DB TISCO estimate

## INCOME STATEMENT (Bt, m)

	Year Ended December 31,				
	2012	2013	2014F	2015F	2016F
Net Premium Income	34,128	38,795	52,360	58,991	66,529
Net Investment Income	5,704	7,056	8,761	10,945	13,527
Gain/(Loss) on Investment in Securities	461	545	250	250	250
Total revenue	40,312	46,435	61,411	70,226	80,346
Life Policy Reserve Increase/ (Decrease) from Previous Year	22,873	25,357	37,889	40,918	45,813
Claims on Life Policy Occurred During the Year	7,971	10,851	11,504	14,141	16,280
Dividends to Policy Holders	0	0	0	0	0
Commission and Brokerages	2,758	2,705	3,436	4,146	4,860
Promotion Expenses	334	352	475	535	603
Total Underwriting Expenses	33,966	39,296	53,350	59,795	67,622
Personnel Expenses	717	809	833	916	1,008
Total Expenses	35,548	41,125	55,324	62,007	70,097
Net Profit Before Taxes	4,764	5,311	6,086	8,219	10,248
Income Taxes	1,041	930	1,035	1,397	1,742
<b>Net Profit</b>	<b>3,724</b>	<b>4,381</b>	<b>5,052</b>	<b>6,822</b>	<b>8,506</b>

## KEY FINANCIAL RATIOS (%)

	Year Ended December 31,				
	2012	2013	2014F	2015F	2016F
Accrued Premium Turnover	21.0	16.2	13.5	13.1	12.8
Gross margin	9.6%	6.7%	5.7%	6.7%	6.7%
Net profit margin	9.2%	9.4%	8.2%	9.7%	10.6%
Return on Investment	5.2%	5.2%	4.9%	4.8%	4.8%
Net premium to Shareholder equities	2.1	1.9	2.2	2.1	1.9
ROE	22.6%	21.0%	20.9%	23.8%	24.6%
Operating expenses/ Investment assets	1.14%	1.10%	0.91%	0.83%	0.77%
ROA	2.9%	2.8%	2.6%	2.8%	2.8%
Asset Turnover (X)	0.3	0.3	0.3	0.3	0.3
First Year Premium to total Premium	25.3%	30.3%	34.0%	34.6%	35.3%
Life Policy Reserve to Net Premium	67.0%	65.4%	72.4%	69.4%	68.9%
Claims on Life Policy during the year	23.4%	28.0%	26.0%	26.5%	27.5%
Debt to Equity (x)	6.4	6.7	7.5	7.7	7.7
Life Policy Reserve to Equity (x)	5.7	6.1	6.7	6.9	6.9
Equity to Life Policy Reserve	17.5%	16.3%	14.9%	14.5%	14.5%
Life Policy Reserve to Assets (x)	0.8	0.8	0.8	0.8	0.8

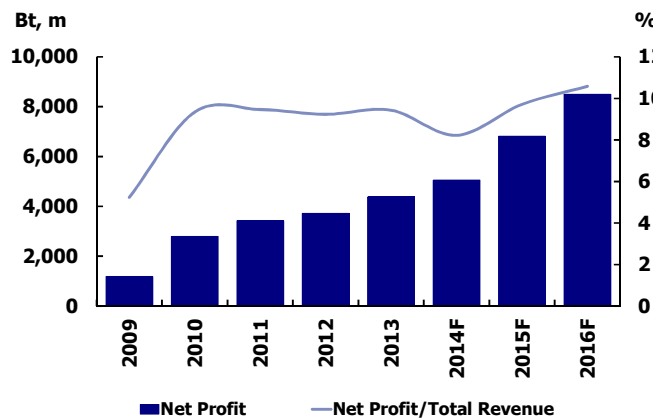
## QUARTERLY RESULTS (Bt, m)

	1Q13	2Q13	3Q13	4Q13	1Q14
Net Premium Income	12,978	9,095	8,372	8,350	26,712
Net Investment Income	1,675	1,703	1,909	1,768	2,014
Gain/(Loss) on Investment in Securities	179	173	88	106	8
Other Income	7	8	12	12	9
Total revenue	14,839	10,980	10,381	10,236	28,742
Life Policy Reserve Increase/ (Decrease) from Previous Year	9,903	5,858	5,446	4,151	22,415
Claims on Life Policy Occurred During the Year	2,368	2,193	2,476	3,814	3,378
Commission and Brokerages	878	627	610	590	1,025
Other Underwriting Expenses	119	76	73	114	122
Personnel Expenses	218	197	201	193	195
Premises and Equipment Expenses	37	38	38	37	40
Other Operating Expenses	210	214	227	218	261
Total expenses	13,734	9,203	9,070	9,118	27,436
Income tax	183	324	211	213	211
Extraordinary items	0.00	0.00	0.00	1.00	1.00
<b>Net profit</b>	<b>922</b>	<b>1,453</b>	<b>1,101</b>	<b>905</b>	<b>1,096</b>
Return on Investment	5.3	5.3	5.3	5.3	5.3
Net premium to Shareholder equities	2.5	2.5	2.5	2.5	2.5
Operating expenses/ Investment assets	1.3	1.3	1.3	1.3	1.3

## BALANCE SHEET (Bt, m)

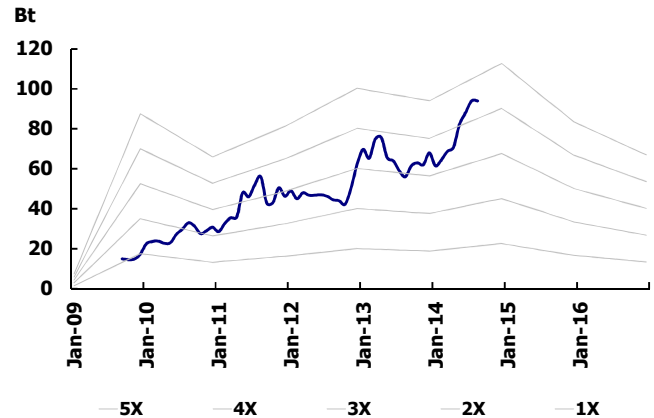
	as of December 31,				
	2012	2013	2014F	2015F	2016F
Bonds	91,250	104,857	133,857	170,857	212,857
P/N	11,572	12,669	17,737	19,511	21,462
Equities	12,670	12,891	15,470	17,017	18,718
Debentures	16,180	23,923	34,688	41,626	49,951
Cash and deposits	1,616	2,641	2,291	2,408	1,761
<b>Total Assets</b>	<b>143,567</b>	<b>172,234</b>	<b>222,213</b>	<b>273,127</b>	<b>330,853</b>
Life Premium Reserve	111,259	136,616	174,505	215,423	261,236
Unpaid Benefits to Life Policy	7,368	7,482	14,833	18,311	22,205
<b>Total Liabilities</b>	<b>124,103</b>	<b>149,971</b>	<b>196,219</b>	<b>241,815</b>	<b>292,953</b>
Unappropriated Reserve	9,761	13,225	17,000	22,096	28,452
<b>Total Equities</b>	<b>19,465</b>	<b>22,264</b>	<b>25,993</b>	<b>31,312</b>	<b>37,900</b>

### NET PROFIT



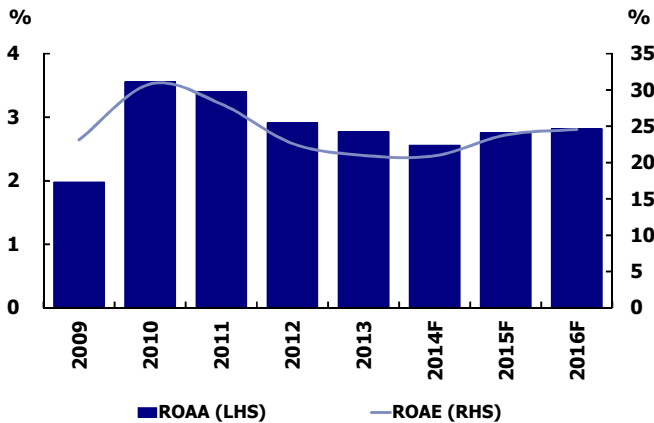
Sources : Company data, TISCO Research

### PE BAND



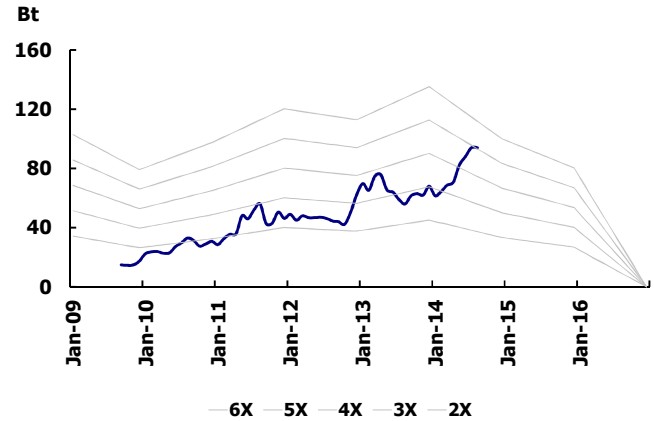
Sources : Company data, TISCO Research

### ROAA, ROAE



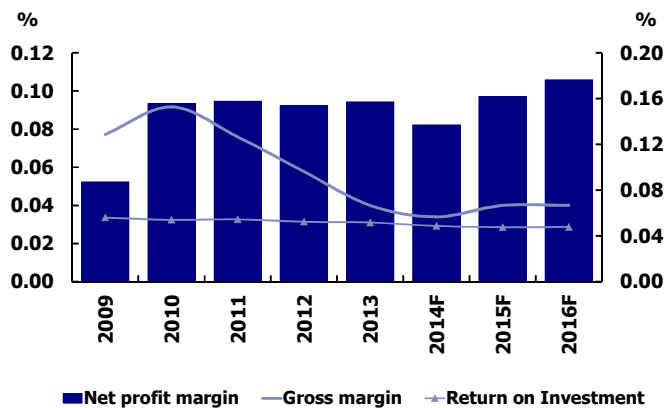
Sources : Company data, TISCO Research

### PE (forward) Band



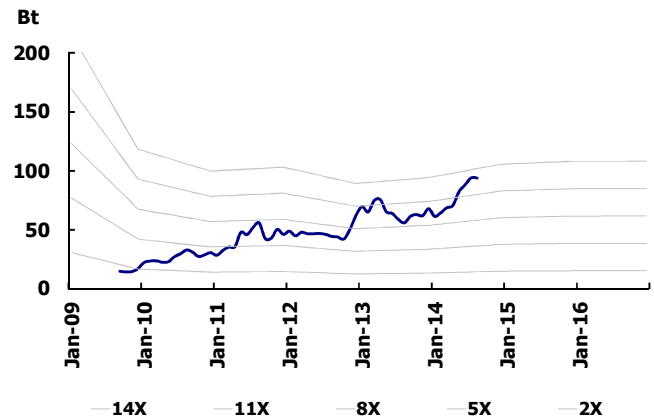
Sources : Company data, TISCO Research

### NET PROFIT MARGIN



Sources : Company data, TISCO Research

### PBV BAND



Sources : Company data, TISCO Research

# TISCO Securities Company Limited

[www.tiscosec.com](http://www.tiscosec.com)

## Bangkok

48/8 TISCO Tower 4th Floor, North Sathorn Road, Bangkok 10500, Thailand

Tel : (66) 2633 6999 Fax : (66) 2633 6490, (66) 2633 6660

## Esplanade Branch

99 Esplanade Shopping Center, Room 202-2, 2nd Floor, Ratchadapisek Road, Din Daeng, Bangkok 10400

Tel : (66) 2641 3251, (66) 2641 3252 Fax : (66) 2641 3253

## Chiang Mai

275/4, 2nd Floor, Chang Phuak Road, Chang Phuak, Muang District, Chiang Mai 50300

Tel. 0 5322 4722 Fax. 0 5322 4711

## Nakhon Pathom

386, 388 Petchkasem Road, Prapatone, Muang District, Nakhon Pathom 73000

Tel: 0 3421 1812 Fax: 0 3425 1676

## Nakhon Ratchasima

Tesco Lotus Korat, 719/5 Mittraphap Road, Naimuang, Muang District, Nakhon Ratchasima 30000

Tel: 0 4425 7752 Fax: 0 4425 3752

## Udon Thani

227/21 2nd Floor, Udondussadee Road, Muang District, Udon Thani 41000

Tel: 0 4224 6888 Fax: 0 4224 5793



Corporate Governance Report  
of Thai Listed Companies 2013

### Score Range

### Level

### Description

90 - 100

5

Excellent

80 - 89

4

Very Good

70 - 79

3

Good

60 - 69

2

Satisfactory

50 - 59

1

Pass

< 50

n.a.

n.a.

N/R

Does not appear in the CGR report

### Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. (In order to recognize well performed companies, companies classified into the three highest score groups (Good, Very Good, and Excellent) will be announced to the public).

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. TISCO Securities Company Limited does not confirm nor certify the accuracy of such survey result.

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. TISCO and other companies in the TISCO Group and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. No person is authorized to give any information or to make any representation not contained in this document and any information or representation not contained in this document must not be relied upon as having been authorized by or on behalf of TISCO. This document is for private circulation only and is not for publication in the press or elsewhere. TISCO accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.