

Bangkok Life Assurance

2Q14: Rates fall hurt U/W margin more than expected

Quarterly net profit of Bt169m sharply missed our Bt1.4bn forecast due to a Bt1.8bn underwriting loss (vs. our projected Bt101m U/W profit). Net premiums meanwhile grew 7.4% YoY in 2Q14 (+65% YoY for 1H14 - far above the company's full-year target of 40%). Investment income was as expected; investment yield slipped QoQ on lower bond yield but RoI improved QoQ on larger equity investment gain.

BLA set aside an extra policy reserve of around Bt1.4bn on top of its normalized reserve. Although we had anticipated that lower interest rates/bond yields could pressure BLA into a higher life policy reserve requirement (on NPV approach), we under-estimated the extent of the impact on the 2Q (our projection was based on BLA's earlier guidance that it had already set aside some cushion in 1Q14). Note that profit in the financial statement should be considered under-stated since Thai accounting standards require marking to market liabilities but not assets. In the comprehensive income statement, BLA reported unrealized investment gain of Bt858m in 2Q14 as falling bond yield increased bond investment value. Hence, unrealized investment gain in shareholder's equity further increased to Bt5.77bn in 2Q14 from Bt5.2bn in 1Q14.

So far in 3Q14, bond yields have been slightly ticking up. If this trend continues, life policy reserve may ease HoH in 2H14. However, the huge life policy reserve still poses a significant downside risk to our full-year projections whilst its net premium growth YTD, though robust (exceeds our full-year forecast of 35%), is unlikely to be adequate to fully compensate. We anticipate a mild recovery in net profit in 2H14 on easing life policy reserve and larger investment income. BLA's outlook turning more positive depends largely on the bond yield/interest rate trend – which continues to not show clear signs of rising. Hence, we believe BLA is overpriced at 2.5x P/EV and 33x P/implied NB average for 2014-15F; Sell maintained.

Figure 1. Key financial summary

Bt, m	2Q14	2Q13	1Q14	%YoY	%QoQ
Net Premium Income	9,769	9,095	26,712	7%	-63%
Net Investment Income	2,483	1,876	2,022	32%	23%
Total Underwriting Expenses	(11,596)	(8,754)	(26,940)	32%	-57%
Total Operating Expenses	(501)	(455)	(496)	10%	1%
Net underwriting income	(1,828)	341	(228)	636%	-702%
Income Taxes	6	(324)	(211)	-102%	-103%
Net Profit	169	1,453	1,096	-88%	-85%

Key ratios

Life policy reserve to net premium	82.9%	64.4%	83.9%	18.5%	-1.0%
Gross underwriting margin	-8.9%	11.5%	3.4%	-20.4%	-12.3%
Investment yield	4.5%	4.4%	4.6%	0.0%	-0.1%
ROI	5.4%	5.0%	4.7%	0.3%	0.6%
ROE	2.8%	26.6%	18.9%	-23.8%	-16.1%

Source: Deutsche Bank

Rating

SELL

(unchanged)

12 month Target Price

Bt68.00

Current Price (08/08/2014)

Bt92.25

Upside/Downside

-26.3%

CG Rating

4

Sector

INSUR

Sector PER (x)

22.3x

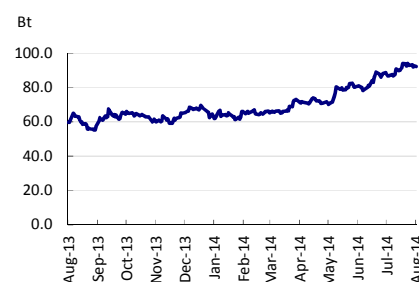
SHARE SUMMARY

Issued shares:	1,212.6m
Par value:	Bt1.0
Market capitalization:	Bt111.9bn
Avg. Daily Turnover:	Bt54.2m
Foreign Limit/Actual (%)	25/0
Free Float:	40.8%
NVDR:	4.1%
Beta (3 years)	1.1x

TISCO's forecast vs. consensus

EPS (Bt)	TISCO	Consensus	% Diff.
2014F	4.17	4.19	-0.6%
2015F	5.63	5.01	12.3%

PRICE / PRICE RELATIVE



Source: Bloomberg Finance LP

Performance (%)	-1m	-3m	-12m
BLA	6.34	23.41	54.39
SET	0.15	8.90	5.05

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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

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