

## Bangkok Life Assurance Public Company Limited

### Strong growth on the horizon

*We initiate our coverage of BLA with a BUY recommendation. Given the insurance sector's promising growth, BLA looks to build on its exceptional 1H14 expansion in total premiums and increase its profitability in coming years. To achieve such feats, the life insurance provider has shifted its focus from single premium products to high-margin products, such as whole life insurance. Moreover, BLA's partnership with Bangkok Bank has made bancassurance its key distribution channel, using the bank's client base to sell its products. Rolling forward to 2015, the stock provides an appealing valuation for investors to realize gains in the long run.*

#### Life insurance sector in Thailand

Despite political turmoil and adverse economic conditions over the years, the life insurance sector in Thailand has grown steadily, without a single down year in the past 10 years. In 2013, total life premiums sold reached a record figure of Bt442bn with a five-year premium growth of 14.8% CAGR for 2008-2013. Compared to other countries in the world, we believe that Thailand has room for further growth as insurance premiums to total GDP was 3.0%, lower than those of other Asian countries such as Singapore (5%) and Hong Kong (10%). Thus, we expect BLA to take advantage of this opportunity as it is the third-largest life insurance company in Thailand.

#### Shift towards higher margin premiums

BLA reported total premium income of Bt37bn, up 64% YoY, in 1H14. However, the strong growth in insurance premiums stemmed from the sale of single premium endowment policies, which call for heavy provision-setting and lower profits margins. As a result, BLA has shifted its focus towards high-margin products. This change in strategy is aimed at building better profitability as it has already achieved its first year premium growth target of 49% in 1H14.

#### Bancassurance with Bangkok Bank

Bancassurance has grown increasingly popular since its breakthrough in early 2000. This makes BLA's partnership with BBL especially crucial as we foresee sales via agents to become less and less apparent. BBL is the country's largest bank with 975 branches nationwide; therefore, it can provide greater exposure for BLA's products and cross-sell whole life protection products by bundling insurance policies with loan services.

#### Appealing valuation

BLA is currently trading at 4.3x our prospective 2014E BV, providing a 20.0% upside to our 2015 target price of Bt106.50. Our target price is derived from an excess equity return model (used to value financial service firms) with a 10 year high growth phase before entering a stable growth period forever. We assume 21% long-term ROE, 10.0% cost of equity, and 16.8% earnings growth rate. Historically, the stock has traded at an even higher PBV of 6.0x. Given the insurance sector in the early growth phase, BLA has great potential moving forward. BUY

## BUY

Current Price	Bt88.75
Target Price (2015)	Bt106.50
Upside/(Downside)	20.0%
Consensus	Bt77.46

Sector	Insurance
Paid-up Shares (mn.shares)	1,213
Market Capitalization (Btmn)	107,623
Free Float (%)	40.84%

#### Major Shareholders (%)

1. Mitsubishi UFJ Global Custody S.A.	25.35
2. Wattanasophonpanich Company Limited	13.14
3. Bangkok Bank Pcl	7.66
4. Bangkok Insurance Pcl	4.63

#### Financial Highlights

	2013	2014E	2015E	2016E
Net Profit (Btmn)	4,381	3,926	5,346	5,684
EPS (Bt)	3.62	3.24	4.42	4.84
EPS Growth (%)	16.8	-10.4	36.2	9.7
BVPS (Bt)	18.4	20.9	24.6	28.6
DPS (Bt)	0.76	0.65	0.88	0.97
ROE (%)	21.0	16.5	19.4	18.2
P/E (x)	24.5	27.4	20.1	18.3
P/BV (x)	4.8	4.3	3.6	3.1
Div. Yield (%)	0.9	0.7	1.0	1.1

Source: SET, AWS estimates

#### Relative Performance



Source: SETSMART

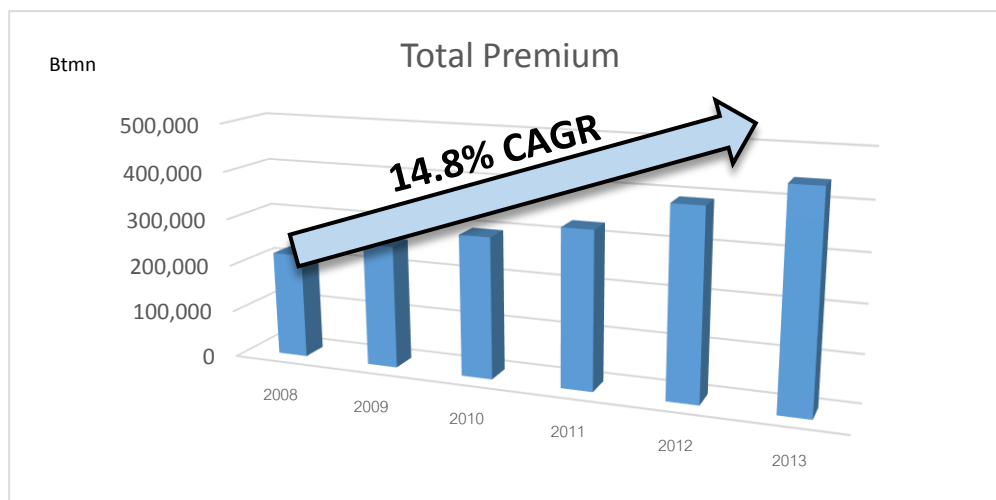
Mr. Warut Siwasariyanon Tel: 02 680 5041  
E-mail: Warut.Si@asiawealth.co.th  
License No. 017923

Mr. Alex Manoonpol Tel: 02 680 5042  
E-mail: Alex.Ma@asiawealth.co.th  
Analyst assistant

### Life insurance sector in Thailand

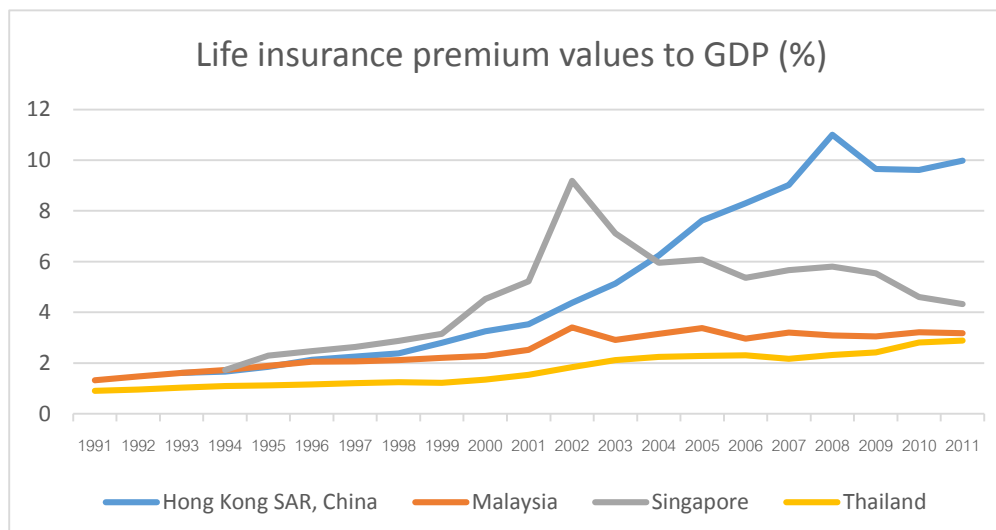
The life insurance sector in Thailand has remained a constant on the SET over the past decade, posting positive growth each year. Premiums have been consistently growing with a record high of Bt442bn in 2013. From 2008 to 2013, the industry's premiums grew at a healthy CAGR of 14.8%, reflecting potential for further expansion in the years ahead. Compared to other countries in the world, Thailand has an insurance penetration ratio, calculated as total premiums to GDP, of 3%. This figure is markedly lower than those of other countries in Asia such as Singapore (5%) and Hong Kong (10%). As a result, it is our belief that Thai life insurance companies will be able to reap benefits from many remaining uninsured people in the country.

**Figure 1: Total premium growth of industry**



Source: Office of Insurance Commission

**Figure 2: Insurance penetration**



Source: World Bank

BLA is the third-largest life insurance company in Thailand. In terms of market share, American International Assurance (AIA) was number one at 20.7%, followed by Muang Thai Life Assurance (MTL) at 15.4%, and BLA at 14.4%. The growth of bancassurance has played a key role in increasing the market share of MTL and BLA. MTL's partnership with KBANK and BLA's partnership with BBL have sprung the two companies to the top of the list. With the aging population and growing awareness of insurance benefits, the insurance sector has a promising outlook and BLA has a golden opportunity to collect profits from an increasing number of premiums.

**Table 1: Market share of premiums in 1H14**

Unit : Million Baht

Company	First Year Premium	Renewal Premium	Single Premium	Total	Share (%)
MTL	11,631.14	20,071.87	7,737.16	39,440.18	15.43
AIA	8,932.41	40,607.63	3,395.28	52,935.32	20.70
KTAL	8,021.95	13,881.42	1,883.31	23,786.69	9.30
SCBLife	7,313.46	15,143.98	2,267.51	24,724.95	9.67
TLI	5,912.67	22,595.08	1,090.04	29,597.78	11.58
BLA	3,503.22	20,354.39	13,039.15	36,896.76	14.43

Source: Office of Insurance Commission

## Shift towards higher margin premiums

Total insurance premium includes a first year premium (FYP), a renewal premium (RYP), and a single premium. Meanwhile, life insurance products can be divided into four categories:

1. *Ordinary life insurance*: can be divided into four sub-categories.
  - a) *Endowment life insurance*: A savings-type product in which the insured person receives an amount at a certain time or a designated beneficiary receives death benefits upon the death of the insured person within the insured period.
  - b) *Whole life insurance*: Provides life-time protection with death benefits paid to the beneficiary upon the death of the insured person.
  - c) *Term life insurance*: Provides temporary protection, in which a claim can be made upon death within the insured period. There is no savings component.
  - d) *Rider*: Additional coverage desired by the insured (medical expense, accident insurance, etc.)
2. *Group life insurance*: a term insurance covering a group of people.
3. *Industrial insurance*: life insurance with modest amount of coverage, low premiums, and no health check requirements.
4. *Personal accident*: a limited life insurance policy designed to cover the insured in case of personal accident.

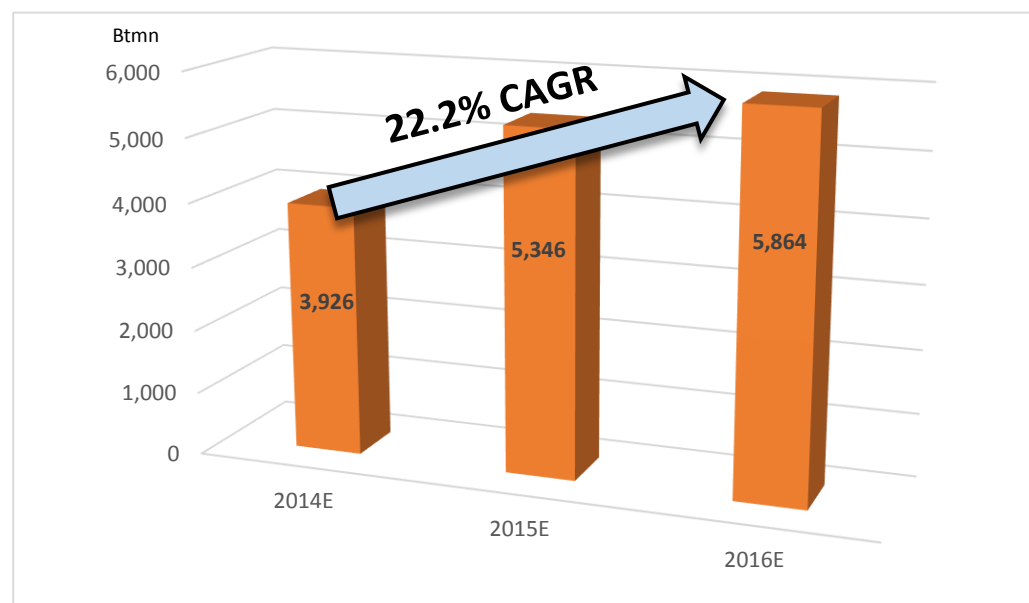
BLA reported total premium growth of Bt37bn, up 64% YoY, in 1H14. It is worth noting, however, that the main driver for this boost in premiums was the sale of single premium endowment products. These are savings type products that are easiest to sell in Thailand. With committed



returns and a shorter duration of premium payments than whole life insurance, endowment life policy reserve is higher and generates a lower return than a whole life policy. This caused BLA to suffer losses from underwriting in 1H14. Nevertheless, it still managed to reach its FY14 FYP growth target of 49% in only the first half of the year. Given such, BLA aims to shift its focus towards higher-margin products, such as whole life insurance. This change in strategy will enable BLA to build better profitability and set lighter provisions. Management has guided that its life policy reserve in 2H14 and onwards will fall to 60-65% of total premiums as opposed to 83% in 1H14. We conservatively estimate that its life policy reserve will be about 75% of total premiums in 2014 and 68.5% in 2015. Due to the heavy-provisioning in 2Q14, we forecast that FY14 net profit will fall to Bt3.9bn, a drop of 10.3% YoY. Looking forward to 2015, we project that earnings will shoot back up to Bt5.3bn as we expect provisioning to normalize by 2H14 from a product mix geared towards long-term high-margin policies.

Another source of revenue for life insurance companies is their return on investment assets. Most life insurance companies' assets are dedicated to investment assets with most companies having an investment asset to total asset ratio greater than 90%. BLA is no different as they recently invested Bt13bn in foreign currency-denominated bonds that yield about 6% and continue to accumulate medium- to long-term bonds. BLA is confident that it will reach its target ROI of 5% as the industry average was consistently in the range of 4-5%. As such, we similarly forecast ROI close to 5% for the years 2014-2016. After an expected decline in 2014 earnings, a combination of higher revenue on investment assets and higher net earned premium from lighter provision-setting will drive earnings growth in the years 2015-2016. We estimate that BLA will post a CAGR of net profit at 22.2% during 2014-2016.

**Figure 3: Earnings outlook in 2014-2016**



Source: AWS estimates

As with any financial institution, statutory capital is crucial since the firm must meet this criteria above all other aspects. Currently, BLA's capital adequacy ratio (CAR) stands at 240% while the Office of Insurance Commission's minimum CAR requirement is 140%. This means that BLA will be able to grow its business further without the need to raise capital for some time. Additionally, BLA has set its policy floor for CAR at 200%.

## **Bancassurance with Bangkok Bank**

Bancassurance made its breakthrough in early 2000 when the Bank of Thailand granted licenses to commercial banks to sell insurance products. Ever since, bancassurance has grown increasingly popular as the share of distribution channels through bancassurance has reached close to 50% as of June 2014. We expect this trend to continue and foresee sales through agents becoming less and less apparent. Consequently, this makes BLA's partnership with BBL critical for the growth of premiums.

BLA is heavily reliant on bancassurance as 80% of its policies sold are via the bancassurance channel. Since BBL is the country's largest bank with 975 branches nationwide, the partnership between BBL and BLA is conducive to the insurance company's attempt to reach a wider customer base. Moreover, the staff at BBL is able to sell a wide variety of BLA's products to their customers through cross sales by bundling insurance policies with loan services. This allows for greater exposure to whole life policies, which BLA has been pushing to increase their profit margins. BBL has also expanded its services to retail lending to capture those target customers that are more likely to buy high-yield whole life policies. Though dependent on BBL's sales force, BLA has still been shoring up its sales agent force. This poses an opportunity for a greater sales volume of high-margin products as it is believed that agents are more successful in selling whole life and term life insurance than banks. Given two strong sales forces, we are confident BLA will achieve increased premiums and profitability in years to come.

## **Appealing valuation**

BLA is currently trading at 4.3x our prospective 2014E BV, providing a 21.0% upside to our 2015 target price of Bt106.50. Our target price is derived from an excess equity return model (used to value financial service firms) with a 10 year high growth phase before entering a stable growth period forever. We assume 21% long-term ROE, 10.0% cost of equity, and 16.8% earnings growth rate. Instead of using the embedded value (EV) and value of new business (VNB) multiplier, we choose to use the excess equity return model in order to compare with other insurance firms that have no EBV and VNB available. Furthermore, the stock has traded at an even higher PBV of 6.0x in years past. Compared to other competitors in the industry such as THREL and SCBLIF, BLA is trading at a cheaper PBV. Given the insurance sector is in the early growth phase, BLA has great potential moving forward. BUY

Table 2: Excess equity return model

Equity Invested =	฿29,834,000,000.00
PV of Equity Excess Return =	฿99,294,296,704.70
Value of Equity =	฿129,128,296,704.70
Number of shares =	1,212,648,000
Value Per Share =	฿106.48

Source: AWS estimates

### Possible risks and concerns

Possible risks and concerns that might affect BLA are as follows:

1. BBL's sales force does not deliver up to expectation in regards to the sale of high-margin products.
2. A downturn in the economy leading to a lower return on investment assets.

### Income Statement

Unit: Btmn	2012	2013	2014E	2015E	2016E
Insurance premium	34,128	38,795	58,193	52,373	54,992
Less Life policy reserve	22,873	25,357	43,645	35,876	37,670
<b>Net earned premium</b>	<b>11,255</b>	<b>13,438</b>	<b>14,548</b>	<b>16,498</b>	<b>17,323</b>
Underwriting expense	11,094	13,939	16,876	17,283	18,147
<b>Profit from Insurance</b>	<b>161</b>	<b>-501</b>	<b>-2,328</b>	<b>-786</b>	<b>-825</b>
Revenue on investment	6,165	7,601	9,007	10,469	12,144
Other income	20	39	63	50	58
<b>Net revenue</b>	<b>6,346</b>	<b>7,139</b>	<b>6,742</b>	<b>9,733</b>	<b>11,377</b>
Operating expense	1,582	1,828	2,177	3,050	3,661
<b>Pre-tax profit</b>	<b>4,764</b>	<b>5,311</b>	<b>4,565</b>	<b>6,683</b>	<b>7,716</b>
Income tax	1,041	930	639	1,337	1,852
<b>Net profit</b>	<b>3,724</b>	<b>4,381</b>	<b>3,926</b>	<b>5,346</b>	<b>5,864</b>

### Balance Sheet

Unit: Btmn	2012	2013	2014E	2015E	2016E
Cash and cash equivalents	866	1,331	1,746	1,833	1,925
Total investment in securities	134,979	161,126	209,463	249,261	289,143
Total net loans	2,649	3,526	4,231	4,442	4,887
Premises and equipment - net	305	327	392	451	496
Other assets	4,768	5,925	7,060	7,506	9,134
<b>Total assets</b>	<b>143,567</b>	<b>172,234</b>	<b>222,892</b>	<b>263,494</b>	<b>305,584</b>
Securities sold under repurchase	200	950	1,005	1,047	1,012
Income tax payable	582	257	298	209	120
Amount due to reinsurer	400	450	582	524	550
Life policy reserve	111,259	136,616	180,261	216,137	253,806
Other liabilities	11,662	11,697	15,473	15,744	15,467
<b>Total liabilities</b>	<b>124,103</b>	<b>149,971</b>	<b>197,619</b>	<b>233,660</b>	<b>270,955</b>
Paid-up capital	1,205	1,212	1,212	1,212	1,212
Capital surplus	2,759	2,846	2,846	2,846	2,846
Other components	5,217	4,459	4,459	4,459	4,459
Retained earnings	10,283	13,747	16,757	21,318	26,113
Total equity of the company	19,465	22,264	25,273	29,834	34,629
Minority interest	0	0	0	0	0
<b>Total equity</b>	<b>19,465</b>	<b>22,264</b>	<b>25,273</b>	<b>29,834</b>	<b>34,629</b>



**Key Financial Ratios**

	2012	2013	2014E	2015E	2016E
<b>Growth (%)</b>					
Net earned premium	3.5	19.4	8.3	13.4	5.0
Life policy reserve	13.3	10.9	72.1	-17.8	5.0
Underwriting expense	14.0	25.6	21.1	2.4	5.0
Profit from insurance	-85.9	-410.8	364.5	-66.3	5.0
Non-underwriting income	22.7	23.5	18.7	16.0	16.0
Net revenue	2.7	12.5	-5.6	44.4	16.9
Net profit	9.0	17.6	-10.4	36.2	9.7
EPS	8.9	16.8	-10.4	36.2	9.7
<b>Profitability</b>					
ROI (%)	5.2	5.1	4.9	4.6	4.5
ROA (%)	2.9	2.8	2.0	2.2	2.1
ROE (%)	22.6	21.0	16.5	19.4	18.2
EPS (Bt)	3.1	3.6	3.2	4.4	4.8
BVPS (Bt)	16.2	18.4	20.9	24.6	28.6
DPS (Bt)	0.7	0.8	0.6	0.9	1.0
<b>Capital</b>					
D/E (x)	6.4	6.7	7.8	7.8	7.8
<b>Market</b>					
P/E (x)	28.6	24.5	27.4	20.1	18.3
P/BV (x)	5.5	4.8	4.3	3.6	3.1
Dividend yield (%)	0.8	0.9	0.7	1.0	1.1



## รายงานการประเมินการกำกับดูแลกิจการ (CGR) โดยสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย 2556

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.



ADVANC	BTS	GRAMMY	MCOT	PTT	SC	SSI	TMB
AOT	CIMBT	HANA	MINT	PTTEP	SCB	SSSC	TNITY
ASIMAR	CK	HEMRAJ	NKI	PTTGC	SCC	SVI	TOP
BAFS	CPF	ICC	NOBLE	QH	SCSMG	SYMC	TRC
BANPU	CPN	INTUCH	PAP	RATCH	SE-ED	TCAP	TRUE
BAY	CSL	IRPC	PG	ROBINS	SIM	THAI	TTW
BBL	DRT	IVL	PHOL	RS	SIS	THCOM	TVO
BCP	DTAC	KBANK	PR	S&J	SITHAI	THRE	UV
BECL	EASTW	KKP	PRANDA	SAMART	SNC	TIP	VGI
BKI	EGCO	KTB	PS	SAMTEL	SPALI	TISCO	WACOAL
BROOK	ERW	LPN	PSL	SAT	SPI	TKT	



2S	ASP	CHOW	GBX	JUBILE	LRH	NMG	PPP	SINGER	TCP	TOG	UAC
ACAP	AYUD	CM	GC	KBS	LST	NSI	PREB	SIRI	TF	TPC	UMI
AF	BEC	CNT	GFPT	KCE	MACO	NWR	PRG	SKR	TFD	TPCORP	UMS
AHC	BFIT	CPALL	GL	KGI	MAJOR	OCC	PT	SMT	TFI	TPIPL	UP
AIT	BH	CSC	GLOW	KKC	MAKRO	OFM	PYLON	SNP	THANA	TRT	UPOIC
AKP	BIGC	DCC	GOLD	KSL	MBK	OGC	QTC	SPCG	THANI	TRU	UT
AMANAH	BJC	DELTA	GSTEL	KWC	MBKET	OISHI	RASA	SPPT	THIP	TSC	VIBHA
AMARIN	BLA	DTC	GUNKUL	L&E	MFC	PB	SABINA	SSF	TICON	TSTE	VIH
AMATA	BMCL	ECL	HMPRO	LANNA	MFEC	PDI	SAMCO	STANLY	TIPCO	TSTH	VNG
AP	BWG	EE	HTC	LH	MODERN	PE	SCCC	STEC	TK	TTA	VNT
APCO	CCET	EIC	IFEC	LHBANK	MTI	PF	SCG	SUC	TLUXE	TTCL	YUASA
APCS	CENTEL	ESSO	INET	LHK	NBC	PJW	SEAFCO	SUSCO	TMILL	TUF	ZMICO
ASIA	CFRESH	FE	ITD	LIVE	NCH	PM	SFP	SYNTEC	TMT	TWFP	
ASK	CGS	FORTH	JAS	LOXLEY	NINE	PPM	SIAM	TASCO	TNL	TYM	








A	ASIA	CITY	EASON	HTECH	KASET	MJD	PL	SF	SVOA	TMI	UOBKH
AAV	BAT-3K	CMR	EMC	HYDRO	KC	MK	POST	SGP	SWC	TNDT	UPF
AEC	BCH	CNS	EPCO	IFS	KCAR	MOONG	PRECHA	SIMAT	SYNEX	TNPC	UWC
AEONTS	BEAUTY	CPL	F&D	IDL	KDH	MPIC	PRIN	SLC	TBSP	TOPP	VARO
AFC	BGT	CRANE	FNS	ILING	KTC	MSC	Q-CON	SMIT	TCCC	TPAC	VTE
AGE	BLAND	CSP	FOCUS	INOX	KWH	NC	QLT	SMK	TEAM	TPP	WAVE
AH	BOL	CSR	FPI	IRC	LALIN	NIPPON	RCI	SOLAR	TGCI	TR	WG
AI	BROCK	CTW	FSS	IRCP	LEE	NNCL	RCL	SPC	TIC	TTI	WIN
AJ	BSBM	DEMCO	GENCO	IT	MATCH	NTV	ROJNA	SPG	TIES	TVD	WORK
AKR	CHARAN	DNA	GFM	JMART	MATI	OSK	RPC	SRICHA	TIW	TVI	
ALUCON	CHUO	DRACO	GJS	JMT	MBAX	PAE	SCBLIF	SSC	TKS	TWZ	
ANAN	CI	EA	GLOBAL	JTS	MDX	PATO	SCP	STA	TMC	UBIS	
ARIP	CIG	EARTH	HFT	JUTHA	PRINC	PICO	SENA	SUPER	TMD	UEC	

### Corporate Governance Report disclaimer

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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, Asia wealth Securities Company Limited does not conform nor certify the accuracy of such survey result.

Score	Range Number of Logo	Description
90 - 100		Excellent
80 - 89		Very Good
70 - 79		Good
60 - 69		Satisfactory
50 - 59		Pass
Below 50	No logo given	N/A

Branch	Address	Phone	Fax
<b>Head Office</b>	540 Floor 7,14,17 , Mercury Tower, Ploenchit Road, Lumpini, Pathumwan Bangkok 10330	02-680-5000	02-680-5111
<b>Silom</b>	191 Silom Complex Building,21st Floor Room 2,3-1 Silom Rd., Silom, Bangrak, Bangkok, 10500 Thailand	02-630-3500	02-630-3530-1
<b>Asok</b>	159 Sermmitr Tower, 17th FL. Room No.1703, Sukhumvit 21 Road, Klong Toey Nua, Wattana, Bangkok 10110	02-261-1314-21	02-261-1328
<b>Pinklao</b>	7/3 Central Plaza Pinklao Office Building Tower B, 16th Flr., Room No.1605-1606 Baromrajachonnanee Road, Arunamarin, Bangkoknoi, Bangkok 10700	02-884-7333	02-884-7357, 02-884-7367
<b>Chaengwattana</b>	99/99 Moo 2 Central Plaza Chaengwattana Office Tower, 22nd Flr., Room 2204 Chaengwattana Road, Bang Talad, Pakkred, Nonthaburi 11120	02-119-2300	02-8353006
<b>Chaengwattana 2</b>	9/99 Moo 2 Central Plaza Chaengwattana Office Tower, 22nd Flr., Room 2203 Chaengwattana Road, Bang Talad, Pakkred, Nonthaburi 11120	02-119-2388	02-119-2399
<b>Mega Bangna</b>	39 Moo6 Megabangna, 1st Flr., Room 1632/7 Bangna-Trad Road, Bangkaew Bangplee, Samutprakarn 10540	02-106-7345	02-105-2070
<b>Rayong</b>	356/18 Sukhumvit Road, Nuen-Phra Sub District, Muang District, Rayong Province 21000	038-808200	038-807200
<b>Khonkaen</b>	26/9 Srijanmai Road, Tamboonnaimuang, Khon Khaen 40000	043-334-700	043-334-799
<b>Chonburi</b>	44 Vachiraprakarn Road, Bangplasoi, Muang Chonburi, Chonburi 20000	038-274-533	038-275-168
<b>Chaseongsao</b>	233-233/2 Moo2 1st Flr., Sukprayoon Road, Na Meung Sub-District, Meung District, Chachoengsao 24000	038-981-587	038-981-591