

Bangkok Life Assurance

Dividend payment may alleviate the shock

BLA's share price has risen aggressively against disappointing earnings result, so severe correction is very likely. Yet, benefit from payment of two shares of stock dividend to every five shares held by existing shareholders to strengthen the capital would help alleviate the shock.

■ 2Q14 earnings substantially worse than expected

BLA announced 2Q14 net profit at only B169m, plummeting 84.6%qoq and 88.4%yoy, substantially worse than expected, marking the first quarterly low since its listing. The life insurance business faced B1.82bn in loss, versus B228m in 1Q14. However, gain and dividend from the investment could negate the loss and also covered the operating expense, while there was also a reversal of income tax expense of as much as B6m in this quarter, so BLA was still able to post net profit in this quarter.

■ Cut forecast. Recovery foreseen in 2H14

We revise down our FY2014-2015 earnings forecast to reflect the disappointing earnings in 1H14. The forecast of underwriting expense is increased, for which cannot be compensated despite a projection for higher premium income growth, investment gain, and income tax expense. After the revision, FY2014 net profit is projected to contract 30.5%yoy (while EPS is projected to plunge 50.5%yoy, for the inclusion of an impact from stock dividend payment of 485 million shares at a ratio of five existing shares to two new shares; plus the cash dividend of B0.05/share, the total interim dividend is B0.45/share, with a payout ratio of around 43%). Subsequently, an aggressive rebound of 44.0%yoy is foreseen in 2015 due to the low base in 2014. Since BLA has already achieved its premium income growth target of the year in 1H14, now it is time to manage the earnings for constant growth. Moreover, a projected interest rate uptrend in 2015 would reduce insurance liabilities.

■ Hold for interim dividend

We reiterate to hold BLA for its interim dividend. The current share price still has an 11.10% upside from a new 2014 fair value of B73 (2014 embedded value of B21 plus VNB of B52), versus B81 previously.

BLA

Rec. : HOLD



Current Price (B): 92.25

Price after XD (B): 66.18

Target Price (B): 73.00

Upside : 10.33%

Dividend Yield : 0.78%

Total Return : 11.10%

Market Cap. (Bm) : 79,414

CG Score: 

Technical Chart

ASP vs SAA consensus

EPS (B)	ASP	Cons	%diff
2014F	1.79	4.19	-57%
2015F	2.58	5.13	-50%

Source: SAA consensus and ASP


Key Data

FY: Dec 31	FY12A	FY13A	FY14F	FY15F	FY16F
Net Profit (Bm)	3,724	4,381	3,043	4,384	5,219
EPS (B)	3.09	3.62	1.79	2.58	3.07
Norm. Profit (Bm)	3,724	4,381	3,043	4,384	5,219
BVS (B)	16.16	18.37	14.54	16.18	18.11
PER (x)	29.8	25.5	51.5	35.8	30.0
PBV (x)	5.7	5.0	6.3	5.7	5.1
DPS (B)	0.72	0.91	0.72	1.03	1.23
Dividend Yield (%)	0.8%	1.0%	0.8%	1.1%	1.3%
ROE (%)	22.6%	21.0%	13.0%	16.8%	17.9%

Source : ASP Research

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■ Increase premium reserve by B1.45bn based on GPV

Excluding the premium reserve increase based on the amount of Gross Premium Valuation (GPV), the life insurance business has normalized in 2Q14 after growing sharply by 219.9%qoq and 105.8%yoy in 1Q14 (first-year premium grew as much as 199.96%) from the launch of short-term savings product, Gain 1st 5/1 (one-year premium payment for five-year protection) for sale through bancassurance. The product has received good response amidst the current situation of low deposit rate since it provides a return of over 3% p.a. plus a life protection. Owing to this strategy, BLA has been able to achieve its premium income growth target of 2014 at 25-26%yoy and its first-year premium income growth target of 50%yoy, stepping up as the number one of the business with the market share of 19.97%.

Total premium income in 2Q14 shrank 63.4%qoq (still growing 7.4%yoy), mainly from a decrease in first-year premium. Underwriting expense decreased at a slower rate or by 57.0%qoq (still increasing 32.5%yoy) mostly from additional reserve of totaling B1.45bn from the substantially decreasing interest rate in 2Q14. The additional reserve is based on the amount of Gross Premium Valuation (GPV) over the amount of the Net Premium Valuation (NPV). In addition, the company also booked high benefit payment of B2.54bn, resulting in a total loss of B1.82bn from the life insurance business in this quarter.

■ Investment business remains major profit driver

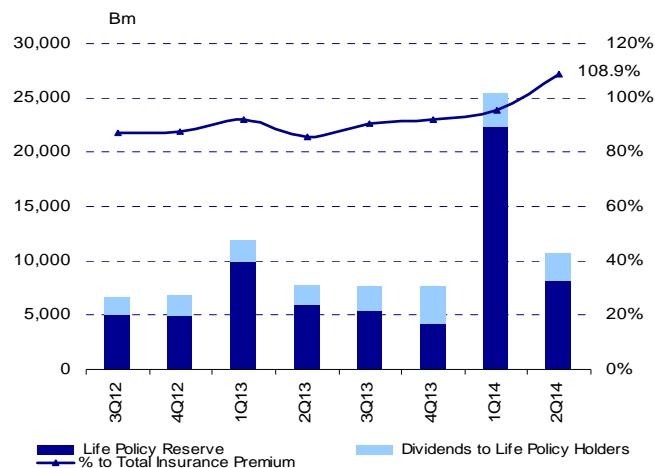
The investment business in 2Q14 was still better than expected. Interest income, dividend income, and capital gain still grew by 20.1%qoq and 31.9%yoy, in line with 4.4%qoq and 24.0%yoy growth of portfolio. Average return on investment (ROI) was 5.31%, beating projection, versus 4.80% in 1Q14, thanks to increasing dividend income and capital gain from the reviving market.

2Q14 and 1H14 Earnings Result

Bm	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	%QoQ	%YoY	1H14	1H13	%YoY
Net Premium Income	7,727	12,978	9,095	8,372	8,350	26,712	9,769	-63.4%	7.4%	36,480	22,074	65.3%
Net Investment Income	1,547	1,903	1,876	2,015	1,856	2,060	2,475	20.1%	31.9%	4,535	3,779	20.0%
Total Income	9,273	14,839	10,986	10,381	10,229	28,742	12,260	-57.3%	11.6%	41,003	25,825	58.8%
Underwriting Expenses	(7,826)	(13,268)	(8,754)	(8,604)	(8,669)	(26,940)	(11,596)	-57.0%	32.5%	(38,536)	(22,023)	75.0%
Operating Expenses	(465)	(465)	(455)	(465)	(442)	(496)	(501)	0.9%	10.0%	(997)	(921)	8.3%
Total Expenses	(8,291)	(13,734)	(9,210)	(9,070)	(9,111)	(27,436)	(12,097)	-55.9%	31.4%	(39,533)	(22,943)	72.3%
Pre-tax Profit	983	1,105	1,777	1,311	1,118	1,307	163	-87.5%	-90.8%	1,470	2,882	-49.0%
Income Tax	(224)	(183)	(324)	(211)	(213)	(211)	6	n.m.	n.m.	(205)	(507)	-59.5%
Net Profit	759	922	1,453	1,101	905	1,096	169	-84.6%	-88.4%	1,265	2,375	-46.7%
EPS (B)	0.63	0.76	1.20	0.91	0.75	0.64	0.10	-84.6%	-91.7%	0.74	1.96	-62.0%
Norm Profit	680	694	1,280	996	817	1,050	1,297	23.5%	1.3%	2,347	1,975	18.9%
Gross Margin	-1.3%	-2.2%	3.7%	-2.8%	-3.8%	-0.9%	-18.7%			-5.6%	0.2%	
ROI	4.74%	5.41%	5.00%	5.19%	4.66%	4.80%	5.31%			5.28%	5.53%	
ROE	16.25%	17.87%	26.57%	20.07%	16.37%	18.92%	2.79%			19.40%	33.60%	
Life Policy Reserve to Net Premium	64.2%	76.3%	64.4%	65.0%	49.7%	83.9%	82.9%			83.6%	71.4%	
Life Policy Reserve and Claims on life policy to Net Premium	87.3%	92.0%	85.3%	90.5%	91.9%	95.3%	108.9%			98.9%	89.3%	
Operating Expenses / Investment Assets	1.4%	1.3%	1.2%	1.2%	1.1%	1.2%	1.1%			1.2%	1.3%	
Spread (ROI - Operating Expenses / Investment Assets)	3.3%	4.1%	3.8%	4.0%	3.6%	3.6%	4.2%			4.1%	4.2%	
Tax rate	22.8%	16.6%	18.2%	16.1%	19.1%	16.1%	-3.4%			14.0%	17.6%	

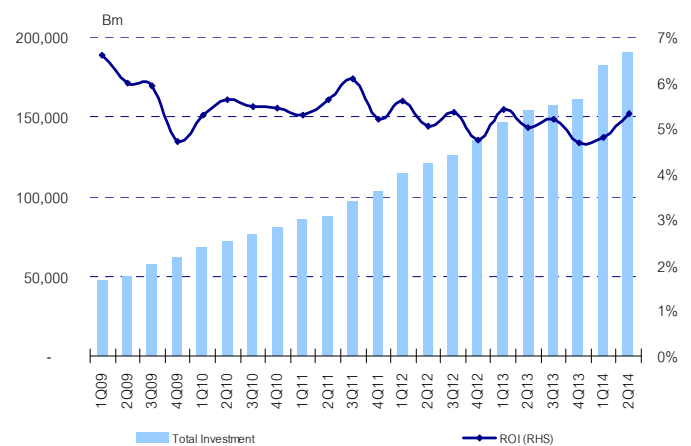
Source: Financial Statement / ASP

Life Policy Reserve vs Net Premium Income by Quarter



Source: ASP Research

Return on Investment (ROI) by Quarter



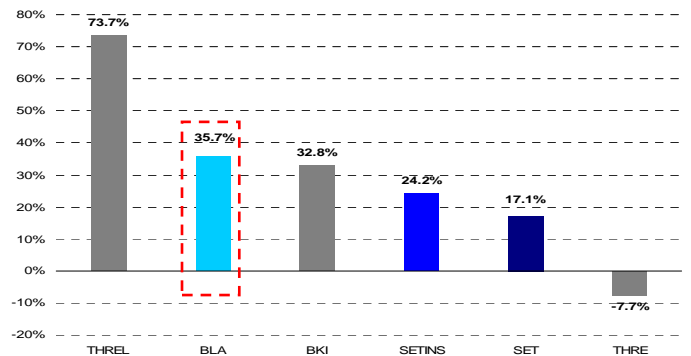
Source: ASP Research

2014-2015F Earning Revision

	New		Previous		% Change	
	2014F	2015F	2014F	2015F	2014F	2015F
Net Profit (Bm)	3,043	4,384	4,760	5,536	-36.1%	-20.8%
EPS (B)	1.79	2.58	3.93	4.57	-54.4%	-43.5%
DPS (B)	0.72	1.03	0.99	1.15	-27.6%	-10.3%
Fair value (B)	73.00		81.00		-9.9%	
Key Assumption						
Net Insurance Premium	53,537	66,922	52,373	65,467	2.2%	2.2%
Investment Income	9,200	11,200	8,700	10,300	5.7%	8.7%
Life Policy Reserve	39,712	46,337	35,555	43,862	11.7%	5.6%
Benefit payment	12,314	17,734	12,046	15,712	2.2%	12.9%
Income tax	714	1,028	1,117	1,299	-36.1%	-20.8%
Life Policy Reserve to Net Premium	70.60%	67.00%	67.00%	67.00%		

Source: ASP Research

Year to Date Return



Source: ASP Research

2014-2016F Earning Forecast

Income Statement (Bm)					Balance Sheet (Bm)				
Ended 31 Dec.	2013	2014F	2015F	2016F	Ended 31 Dec.	2013	2014F	2015F	2016F
Net premium income	38,795	53,537	66,922	80,306	Investment in securities	161,126	209,747	233,947	255,167
Net investment income	7,056	9,200	11,200	12,500	Net loans	3,526	3,878	4,266	4,693
Gain/(Loss) on investment in securities	593	400	400	400	Cash and Deposits at FI	1,331	1,565	1,333	867
Other income	39	39	39	39	Property, plant and equipment, net	327	359	395	435
Total revenues	46,435	63,177	78,561	93,245	Other assets	4,859	8,697	10,509	13,058
Underwriting expenses	(39,296)	(57,257)	(70,616)	(83,914)	Total assets	171,168	224,246	250,450	274,219
Operating expenses	(1,828)	(2,162)	(2,533)	(2,888)	Life Premium Reserve	136,616	185,000	205,000	225,000
Fx gains/ (loss)	-	-	-	-	Other liabilities	12,288	14,532	17,954	18,436
Total expenses	(41,125)	(59,419)	(73,148)	(86,802)	Total liabilities	148,905	199,532	222,954	243,436
Net profit Before taxes	5,311	3,757	5,412	6,443	Paid-up share capital	1,212	1,700	1,700	1,700
Income taxes	(930)	(714)	(1,028)	(1,224)	Share premium	2,914	2,930	2,930	2,930
Net profit	4,381	3,043	4,384	5,219	Surplus on revaluation of investments.	4,391	5,000	5,150	5,305
EPS (B)	3.62	1.79	2.58	3.07	Retained earnings	13,747	15,085	17,717	20,849
Norm profit	4,381	3,043	4,384	5,219	Total shareholders' equity	22,264	24,715	27,496	30,783
Norm EPS (B)	3.62	1.79	2.58	3.07	Total liabilities and shareholders' equity	171,168	224,246	250,450	274,219

Quarter Income Statement (Bm)					Balance Sheet (Bm)				
	3Q13	4Q13	1Q14	2Q14	Ended 31 Dec.	3Q13	4Q13	1Q14	2Q14
Net premium income	8,372	8,350	26,712	9,769	Investment in securities	157,157	161,126	182,310	190,289
Net investment income	1,909	1,768	2,014	2,153	Net loans	3,231	3,526	3,645	3,939
Gain/(Loss) on investment in securities	105	88	46	322	Cash and Deposits at FI	401	1,331	1,810	2,800
Other income	12	68	(38)	8	Property, plant and equipment, net	301	327	336	358
Total revenues	10,381	10,229	28,742	12,260	Other assets	6,295	4,859	8,807	7,618
Underwriting expenses	(8,604)	(8,669)	(26,940)	(11,596)	Total assets	167,384	171,168	196,908	205,003
Operating expenses	(465)	(442)	(496)	(501)	Life Premium Reserve	132,466	136,616	159,031	167,130
Fx gains/ (loss)	-	-	-	-	Other liabilities	12,952	12,288	13,808	13,553
Total expenses	(9,070)	(9,111)	(27,436)	(12,097)	Total liabilities	145,418	148,905	172,839	180,683
Net profit Before taxes	1,311	1,118	1,307	163	Paid-up share capital	1,212	1,212	1,212	1,213
Income taxes	(211)	(213)	(211)	6	Share premium	2,903	2,914	2,930	2,943
Net profit	1,101	905	1,096	169	Surplus on revaluation of investments.	5,010	4,391	5,084	5,770
EPS (B)	0.91	0.75	0.64	0.10	Retained earnings	12,320	13,225	14,321	13,872
Norm profit	996	817	1,050	1,297	Total shareholders' equity	21,966	22,264	24,069	24,320
Norm EPS (B)	0.82	0.67	0.62	0.76	Total liabilities and shareholders' equity	167,384	171,168	196,908	205,003

Financial Ratio					Financial Assumption				
Ended 31 Dec.	2013	2014F	2015F	2016F	Ended 31 Dec.	2013	2014F	2015F	2016F
Gross margin	9.89%	2.82%	4.26%	5.23%	Net premium income growth	13.7%	38.0%	25.0%	20.0%
Net margin	9.43%	4.82%	5.58%	5.60%	Underwriting expenses growth	13.6%	31.4%	18.9%	15.8%
ROI	5.17%	5.18%	5.23%	5.27%	Investment growth	16.2%	23.2%	10.3%	8.3%
ROE	21.00%	12.96%	16.79%	17.91%	Persistency rate	65.4%	74.2%	69.2%	69.2%
Underwriting expenses to Net Premium	7.96%	7.37%	7.28%	7.22%	Assets to Life Policy Reserve	125.3%	121.2%	122.2%	121.9%
Claims on Life Policy during the year/ Net Premium	19.17%	19.17%	19.17%	19.17%	Investment Assets to Life Policy Reserve	121.5%	116.3%	116.9%	115.9%
Debt to Equity (x)	6.69	8.07	8.11	7.91	Equity to Life Policy Reserve	16.30%	13.36%	13.41%	13.68%

Source :Financial Statement / ASP