

## Bangkok Life Assurance

### Increase premium reserve for benefits in 2015

BLA had to increase premium reserve following Gross Premium Valuation (GPV) as a result of decreasing yield curve in 3Q14. However, the high premium reserve will be an important advantage in 2015 since it will help alleviate pressure from short-term products issuance on the company's profit.

#### Reverse to loss in 3Q14 due to impact from policy rate

BLA reported 3Q14 earnings result with net loss of B881m, reversing from B169m net profit in 2Q14 and falling significantly from B1.10bn net profit in 3Q13, because of B3.26bn loss from the insurance business in this quarter. Countercyclical provision was raised as much as B2.24bn in this quarter, increasing the ratio of premium reserve to net premium income to 98.2%, the quarterly high (excluding the countercyclical provisioning, the ratio would decrease from 68.2% in 2Q14 to 67.2% in 3Q14, in line with BLA's target of 67-69%). The substantial increase in the countercyclical provision resulted from decreasing market yield curve. While the value of the company's assets, mostly investment assets; 90% of which are held-to-maturity investments, is estimated by a capital price and thus not benefits from the decreasing policy interest rate, the value of insurance liabilities is estimated by fair value. Accordingly, the decreasing policy interest rate will result in the amount of Gross Premium Valuation (GPV) over the amount of Net Premium Valuation (NPV), leading to the aforementioned reserve increase in 3Q14.

#### Cut FY2014 forecast by 65%

We revise down FY2014 earnings forecast by 65% to reflect a more-than-expected decrease in the policy interest rate. However, we maintain our projection of earnings from the core business since there is nothing worrying. 9M14 net life insurance premium income grew by 43.6%yoy, beating the company's full-year target of 25.2%yoy and the sector's average growth of 15.3%yoy. First year premium income soared 106.9%yoy, versus 49.0%yoy targeted, while renewal year premium income increased 18.6%yoy, versus 16.3%yoy targeted. In 9M14, BLA has been able to increase its overall market share to the fourth of the market rankings (following AIA, MTL, and TLI) or 11.85%. Regarding the products, the company has been focusing more on long-term products through selling agents for its higher margin and lower burden on capital; according to RBC, BLA's current capital adequacy ratio of 282% is too high.

#### Long-term investment. Correction in 2014 but better profit in 2015

We recommend BUY. The share price has substantially undergone correction until it has over 26% upside from 2014 fair value of B66.35 (with 2015 embedded value of B23.79 and 2015 VNB of B42.56).

Key Data					
FY: Dec 31	FY12A	FY13A	FY14F	FY15F	FY16F
Net Profit (Bm)	3,724	4,381	1,062	4,271	4,999
EPS (B)	3.09	3.62	0.62	2.51	2.94
Norm. Profit (Bm)	3,724	4,381	1,062	4,271	4,999
BVS (B)	16.16	18.37	13.84	15.44	17.29
PER (x)	17.1	14.6	84.5	21.0	17.9
PBV (x)	3.3	2.9	3.8	3.4	3.1
DPS (B)	0.72	0.91	0.25	1.00	1.18
Dividend Yield (%)	1.4%	1.7%	0.5%	1.9%	2.2%
ROE (%)	22.6%	21.0%	4.6%	17.2%	18.0%

Source : ASP Research

BLA

Rec. : BUY



Current Price (B): 52.75

Target Price (B): 66.35

Upside : 25.79%

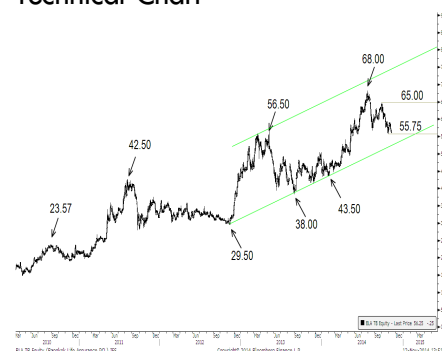
Dividend Yield : 0.47%

Total Return : 26.26%

Market Cap. (Bm) : 89,660

CG Score: 

#### Technical Chart



#### ASP vs IAA consensus

EPS (B)	ASP	Cons	%diff
2014F	0.62	1.13	-45%
2015F	2.51	2.94	-15%

Source: IAA consensus and ASP

Usanee Liurut

License No.: 017928

usanee@asiaplus.co.th

## ■ Reverse to loss in 3Q14 due to impact from policy rate

BLA reported 3Q14 earnings result with net loss of B881m, reversing from B169m net profit in 2Q14 and falling significantly from B1.10bn net profit in 3Q13, because of B3.26bn loss from the insurance business in this quarter. Countercyclical provision was raised as much as B2.24bn in this quarter, increasing the ratio of premium reserve to net premium income to 98.2%, the quarterly high (excluding the countercyclical provisioning, the ratio would decrease from 68.2% in 2Q14 to 67.2% in 3Q14, in line with BLA's target of 67-69%).

The substantial increase in the countercyclical provision resulted from decreasing market yield curve. Most of the company's assets are investment assets; 90% are held-to-maturity investments of which their value is estimated by a capital price and thus not benefits from the decreasing policy interest rate, while the rest 10% are trading securities and available-for-sale investments of which their value is estimated by fair value. Although there is an advantage from the latter part of investments (10%), it could not negate a disadvantage from the value of insurance liabilities that is estimated by fair value. The decreasing policy interest rate will result in the amount of Gross Premium Valuation (GPV) over the amount of Net Premium Valuation (NPV), leading to the aforementioned reserve increase in 3Q14.

Apart from the lower policy rate, another factor that has led to the reserve increase is the type of products offered in each quarter. The value of short-term products will be estimated by GPV when they are getting near maturation, so the more rapidly the yield curve decrease, the larger provisioning the company has to make. Since the company will focus more on long-term products in 2H14, it will help alleviate the premium reserve burden. In addition, maturing insurance policies and expropriation in each quarter will also help reduce the company's provision.

The investment business remained strong. Return on investment (ROI) rose slightly from 5.31% in 2Q14 to 5.34% in 3Q14, mainly thanks to increasing interest income from bonds. Capital gain weakened from 2Q14 but was still high, in line with the rebound of SET Index.

## ■ Likely to achieve 2014 business target. Focusing on long-term products

9M14 net life insurance premium income grew by 43.6%yoy, beating the company's full-year target of 25.2%yoy and the sector's average growth of 15.3%yoy. First year premium income soared 106.9%yoy, versus 49.0%yoy targeted, while renewal year premium income increased 18.6%yoy, versus 16.3%yoy targeted. In 9M14, BLA has been able to increase its overall market share to the fourth of the market rankings (following AIA, MTL, and TLI) or 11.85%. The company's market share of first year premium income was at the third of the rankings (following MTL and AIA) at 13.6%, helping reduce the pressure for the business growth for the remainder of the year. Regarding the products, the company has been focusing more on long-term products through selling agents for its higher margin and lower burden on capital; according to RBC, BLA's current capital adequacy ratio of 282% is too high.

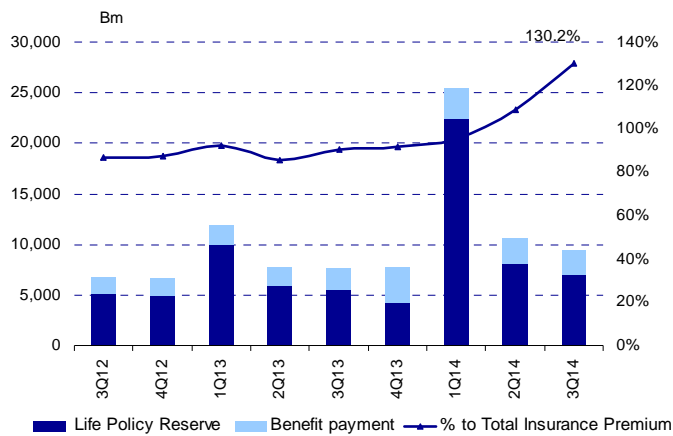
## 3Q14 and 9B14 Earnings Result

Bm	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	%QoQ	%YoY	9M14	9M13	%YoY
Net Premium Income	12,978	9,095	8,372	8,350	26,712	9,769	7,245	-25.8%	-13.5%	43,726	30,445	43.6%
Net Investment Income	1,903	1,876	2,015	1,856	2,060	2,475	2,578	4.2%	28.0%	7,113	5,793	22.8%
<b>Total Income</b>	<b>14,839</b>	<b>10,986</b>	<b>10,381</b>	<b>10,229</b>	<b>28,742</b>	<b>12,260</b>	<b>9,804</b>	<b>-20.0%</b>	<b>-5.6%</b>	<b>50,806</b>	<b>36,206</b>	<b>40.3%</b>
Underwriting Expenses	(13,268)	(8,754)	(8,604)	(8,669)	(26,940)	(11,596)	(10,507)	-9.4%	22.1%	(49,043)	(30,627)	60.1%
Operating Expenses	(465)	(455)	(465)	(442)	(496)	(501)	(482)	-3.8%	3.5%	(1,479)	(1,386)	6.7%
<b>Total Expenses</b>	<b>(13,734)</b>	<b>(9,210)</b>	<b>(9,070)</b>	<b>(9,111)</b>	<b>(27,436)</b>	<b>(12,097)</b>	<b>(10,988)</b>	<b>-9.2%</b>	<b>21.2%</b>	<b>(50,521)</b>	<b>(32,013)</b>	<b>57.8%</b>
<b>Pre-tax Profit</b>	<b>1,105</b>	<b>1,777</b>	<b>1,311</b>	<b>1,118</b>	<b>1,307</b>	<b>163</b>	<b>(1,185)</b>	<b>n.m.</b>	<b>n.m.</b>	<b>285</b>	<b>4,193</b>	<b>-93.2%</b>
Income Tax	(183)	(324)	(211)	(213)	(211)	6	304	n.m.	n.m.	99	(717)	n.m.
<b>Net Profit</b>	<b>922</b>	<b>1,453</b>	<b>1,101</b>	<b>905</b>	<b>1,096</b>	<b>169</b>	<b>(881)</b>	<b>n.m.</b>	<b>n.m.</b>	<b>384</b>	<b>3,476</b>	<b>-88.9%</b>
<b>EPS (B)</b>	<b>0.76</b>	<b>1.20</b>	<b>0.91</b>	<b>0.75</b>	<b>0.64</b>	<b>0.10</b>	<b>(0.52)</b>	<b>n.m.</b>	<b>n.m.</b>	<b>0.23</b>	<b>2.87</b>	<b>-92.1%</b>
Norm Profit	694	1,280	996	817	1,050	1,297	1,175	-9.4%	18.0%	3,522	2,970	18.6%
Gross Margin	-2.2%	3.7%	-2.8%	-3.8%	-0.9%	-18.7%	-45.0%			-12.2%	-0.6%	
ROI	5.41%	5.00%	5.19%	4.66%	4.80%	5.31%	5.34%			5.37%	5.46%	
ROE	17.87%	26.57%	20.07%	16.37%	18.92%	2.79%	-14.58%			2.23%	23.25%	
Life Policy Reserve to Net Premium	76.3%	64.4%	65.0%	49.7%	83.9%	82.9%	98.2%			86.1%	69.7%	
Life Policy Reserve and Claims on life policy to Net Premium	92.0%	85.3%	90.5%	91.9%	95.3%	108.9%	130.2%			98.9%	89.3%	
Operating Expenses / Investment Assets	1.3%	1.2%	1.2%	1.1%	1.2%	1.1%	1.0%			1.1%	1.3%	
Spread (ROI-Operating Expenses/Investment Assets)	4.1%	3.8%	4.0%	3.6%	3.6%	4.2%	4.3%			4.3%	4.2%	
Income Tax ratio	16.6%	18.2%	16.1%	19.1%	16.1%	-3.4%	25.7%			-34.8%	17.1%	

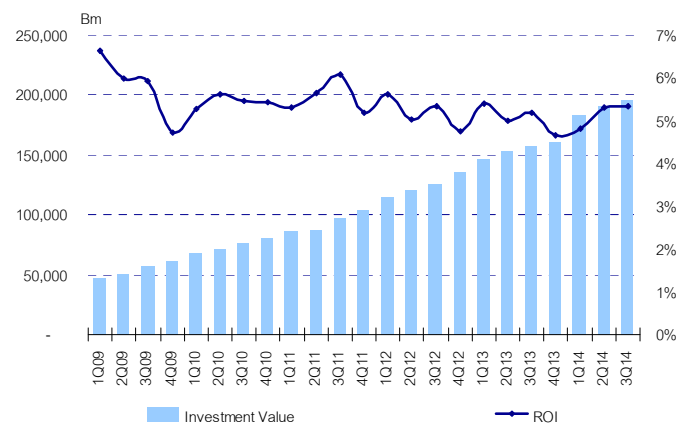
Source: Financial Statement / ASP

## Life Policy Reserve vs Net Premium Income by Quarter

## Return on Investment (ROI) by Quarter



Source: Financial Statement / ASP



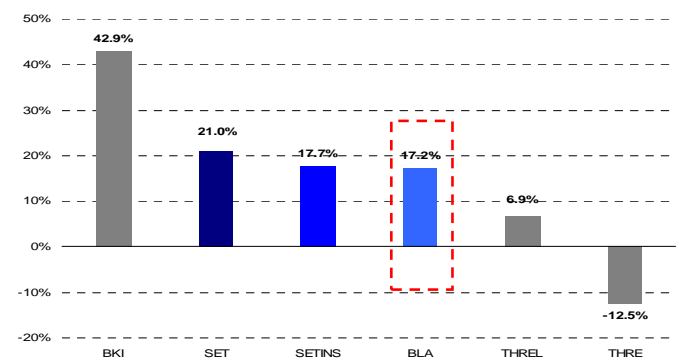
Source: Financial Statement / ASP

## 2014-2015F Earning Revision

	New		Previous		% change	
	2014F	2015F	2014F	2015F	2014F	2015F
Net Profit (Bm)	1,062	4,271	3,043	4,384	-65.1%	-2.6%
EPS (B)	0.62	2.51	1.79	2.58	-65.1%	-2.6%
DPS (B)	0.25	1.00	0.72	1.03	-65.1%	-2.6%
Fair value (B)	66.35		73.00		-9.1%	
<b>Key Forecasts</b>						
Net Premium	53,537	66,922	53,537	66,922	0.0%	0.0%
Investment Income	9,200	11,200	9,200	11,200	0.0%	0.0%
Life Policy Reserve	44,744	46,537	39,712	46,337	12.7%	0.4%
Benefit payment	10,172	17,734	12,314	17,734	-17.4%	0.0%
Income Taxes	249	1,002	714	1,028	-65.1%	-2.6%
Life Policy Reserve to Net Premium	80.00%	67.00%	70.60%	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	83,652	Investment in securities	161,126	208,747	232,947	253,167
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	900	500	500	Cash and Deposits at FI	1,331	1,376	1,075	1,478
Other income	39	(10)	-	-	Property, plant and equipment, net	327	359	395	435
<b>Total revenues</b>	<b>46,435</b>	<b>63,580</b>	<b>78,574</b>	<b>96,604</b>	Other assets	4,859	8,697	10,509	13,058
Underwriting expenses	(39,296)	(60,107)	(70,769)	(87,475)	<b>Total assets</b>	<b>171,168</b>	<b>223,057</b>	<b>249,193</b>	<b>272,830</b>
Operating expenses	(1,828)	(2,162)	(2,533)	(2,958)	Life Premium Reserve	136,616	185,000	205,000	225,000
Fx gains/ (loss)	-	-	-	-	Other liabilities	12,288	14,532	17,954	18,436
<b>Total expenses</b>	<b>(41,125)</b>	<b>(62,269)</b>	<b>(73,302)</b>	<b>(90,432)</b>	<b>Total liabilities</b>	<b>148,905</b>	<b>199,532</b>	<b>222,954</b>	<b>243,436</b>
<b>Net profit Before taxes</b>	<b>5,311</b>	<b>1,311</b>	<b>5,272</b>	<b>6,172</b>	<b>Paid-up share capital</b>	<b>1,212</b>	<b>1,700</b>	<b>1,700</b>	<b>1,700</b>
Income taxes	(930)	(249)	(1,002)	(1,173)	Share premium	2,914	2,930	2,930	2,930
<b>Net profit</b>	<b>4,381</b>	<b>1,062</b>	<b>4,271</b>	<b>4,999</b>	Surplus on revaluation of investments.	4,391	5,000	5,150	5,305
EPS (B)	3.62	0.62	2.51	2.94	Retained earnings	13,747	13,896	16,459	19,460
<b>Norm profit</b>	<b>4,381</b>	<b>1,062</b>	<b>4,271</b>	<b>4,999</b>	<b>Total shareholders' equity</b>	<b>22,264</b>	<b>23,526</b>	<b>26,239</b>	<b>29,394</b>
<b>Norm EPS (B)</b>	<b>3.62</b>	<b>0.62</b>	<b>2.51</b>	<b>2.94</b>	<b>Total liabilities and shareholders' equity</b>	<b>171,168</b>	<b>223,057</b>	<b>249,193</b>	<b>272,830</b>

Quarter Income Statement (Bm)					Balance Sheet (Bm)				
Ended 31 Dec.	4Q13	1Q14	2Q14	3Q14	Ended 31 Dec.	4Q13	1Q14	2Q14	3Q14
Net premium income	8,350	26,712	9,769	7,245	Investment in securities	161,126	182,310	190,289	196,098
Net investment income	1,768	2,014	2,153	2,386	Net loans	3,526	3,645	3,939	4,323
Gain/(Loss) on investment in securities	88	46	322	192	Cash and Deposits at FI	1,331	1,810	2,800	2,184
Other income	68	(38)	8	10	Property, plant and equipment, net	327	336	358	388
<b>Total revenues</b>	<b>10,229</b>	<b>28,742</b>	<b>12,260</b>	<b>9,804</b>	Other assets	4,859	8,807	7,618	7,435
Underwriting expenses	(8,669)	(26,940)	(11,596)	(10,507)	<b>Total assets</b>	<b>171,168</b>	<b>196,908</b>	<b>205,003</b>	<b>210,428</b>
Operating expenses	(442)	(496)	(501)	(482)	Life Premium Reserve	136,616	159,031	167,130	174,248
Fx gains/ (loss)	-	-	-	-	Other liabilities	12,288	13,808	13,553	12,186
<b>Total expenses</b>	<b>(9,111)</b>	<b>(27,436)</b>	<b>(12,097)</b>	<b>(10,988)</b>	<b>Total liabilities</b>	<b>148,905</b>	<b>172,839</b>	<b>180,683</b>	<b>186,434</b>
<b>Net profit Before taxes</b>	<b>1,118</b>	<b>1,307</b>	<b>163</b>	<b>(1,185)</b>	<b>Paid-up share capital</b>	<b>1,212</b>	<b>1,212</b>	<b>1,213</b>	<b>1,213</b>
Income taxes	(213)	(211)	6	304	Share premium	2,914	2,930	2,943	3,436
<b>Net profit</b>	<b>905</b>	<b>1,096</b>	<b>169</b>	<b>(881)</b>	Surplus on revaluation of investments.	4,391	5,084	5,770	6,375
EPS (B)	0.75	0.64	0.10	(0.52)	Retained earnings	13,225	14,321	13,872	12,449
<b>Norm profit</b>	<b>817</b>	<b>1,050</b>	<b>1,297</b>	<b>1,175</b>	<b>Total shareholders' equity</b>	<b>22,264</b>	<b>24,069</b>	<b>24,320</b>	<b>23,994</b>
<b>Norm EPS (B)</b>	<b>0.67</b>	<b>0.62</b>	<b>0.76</b>	<b>0.69</b>	<b>Total liabilities and shareholders' equity</b>	<b>171,168</b>	<b>196,908</b>	<b>205,003</b>	<b>210,428</b>

Financial Ratio					Financial Assumption				
Ended 31 Dec.	2013	2014F	2015F	2016F	Ended 31 Dec.	2013	2014F	2015F	2016F
Gross margin	9.89%	-2.58%	3.96%	5.07%	Net premium income growth	13.7%	38.0%	25.0%	25.0%
Net margin	9.43%	1.67%	5.44%	5.18%	Underwriting expenses growth	13.6%	34.6%	15.1%	19.1%
ROI	5.17%	5.46%	5.30%	5.35%	Investment growth	16.2%	22.8%	10.4%	8.0%
ROE	21.00%	4.64%	17.16%	17.97%	Persistency rate	65.4%	83.6%	69.5%	68.4%
Underwriting expenses to Net Premium	7.96%	7.30%	7.21%	7.13%	Assets to Life Policy Reserve	125.3%	120.6%	121.6%	121.3%
Claims on Life Policy during the year/ Net Premium	24.74%	24.74%	24.74%	24.74%	Investment Assets to Life Policy Reserve	121.5%	115.7%	116.2%	115.3%
Debt to Equity (x)	6.69	8.48	8.50	8.28	Equity to Life Policy Reserve	16.30%	12.72%	12.80%	13.06%

Source :Financial Statement / ASP