

17 November 2014

Bangkok Life Assurance - BLA

High reserve drags earnings deeper in loss in 3QFY14

THAILAND | INSUR | COMPANY RESULTS

BLOOMBERG BLA TB | REUTERS BLA.BK

- BLA set an extra high reserve in 3QFY14, which was a key reason sending earnings deeper in the red of Bt881mn.
- Premium contracted sharply q-q and BLA plans to shift focus on other policies yielding wider margin.
- BLA is likely to continue the extra-high reserve in 4QFY14 and the company might revise its reserve assumption.
- We cut our FY14 net profit forecast to Bt1.2bn to reflect the extra-high reserve.
- Following valuation downgrade, our price target is now lower to Bt57 but we still have an 'ACCUMULATE' rating on BLA.

BLA reported 3QFY14 net loss of Bt881mn, a significant decline from a year-ago net profit of Bt1.1bn and the prior-quarter net profit of Bt169mn.

Premium decreased 13.2% y-y and 25.5% q-q. Much of the declines was due to a sharp decline in sales through Bancassurance channel.

How we view this

Lower interest rate prompted BLA to set quite high reserve in 3QFY14. This, together with lower premium, dragged earnings deeper in the red, though revenue from investment increased notably but it was not enough to offset the extra-high reserve.

BLA is likely to set high reserve in 4QFY14 given a further decrease in interest rate. However, the company plans to revise its reserve assumption as well and this should partially mitigate impact from lower interest rate. The quite-high reserve in 3QFY14 convinces us to revise our net profit projections to Bt1.2bn for 2014 and to Bt4.7bn for 2015.

Investment Action

A downgrade in our valuation leads our price target lower to Bt57. As the subdued performance already factored into share price and we foresee a brighter earnings prospect next year, we thus rate BLA an 'ACCUMULATE' stance.

Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (Btmn)	31,067	34,128	38,795	52,373	56,040
NPAT, adj. (Btmn)	3,417	3,724	4,381	1,170	4,709
EPS, adj. (Bt)	2.85	3.09	3.62	0.69	2.76
P/E (X), adj.	18.2	16.7	14.3	75.1	18.8
BVPS (Bt)	11.19	16.16	18.37	13.37	15.58
P/B (X)	4.6	3.2	2.8	3.9	3.3
DPS (Bt)	0.72	0.72	0.91	0.63	0.70
Div. Yield (%)	1.4%	1.4%	1.8%	1.2%	1.4%

Source: Bloomberg, PSR est.

**Multiples and yields are based on latest closing price



Rating: **Accumulate**
Unchanged

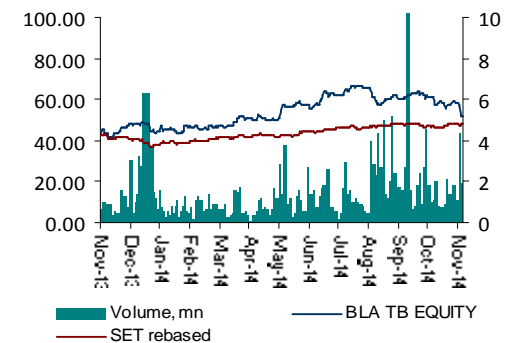
Target Price (Bt) **57.00**
Forecast Dividend (Bt) 0.70
Closing Price (Bt) 51.75
Potential Upside **11.5%**

Company Description

BLA 's core business is life insurance. At present, the Company operates 2 principal types of life insurance business, namely ordinary life insurance and group life insurance. Its major and strategic shareholders are Bangkok Bank Public Company Limited and Nippon Life Insurance Company, which is incorporated in Japan.

Company Data

Raw Beta (Past 2yrs weekly data) 1.12
Market Cap. (USDmn / Btmn) 2675 / 87862
3M Average Daily T/O (mn) 1.9
Closing Px in 52 week range 41.61 - 52.21



Major Shareholders as of	13/10/14	(%)
1. MITSUBISHI UFJ GLOBAL CUSTODY S.A.		24.4
2. Wattanasophonpanich Co.LTD.		13.1
3. Bangkok Bank plc.		7.7

CG Report - 2013



(Very Good)

Valuation Method

P/B'15 (3.6x)

Analyst

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3QFY14 net loss of Bt881mn on high reserve

BLA reported 3QFY14 net loss of Bt881mn on high reserve, a significant decline from a year-ago net profit of Bt1.1bn and the prior-quarter net profit of Bt169mn. BLA set reserve as much as Bt2.2bn in the quarter as lower interest rate pushed gross premium valuation (GPV) higher, which exceeded reserve using net premium valuation (NPV). In the period, BLA booked substantial revenue from investment but it was not enough to offset the extra-high reserve, nonetheless.

Significant decline in premium, BLA shifts focus on protection products that yield wider margin

Premium decreased 13.2% y-y and 25.5% q-q. Much of the declines was due to a sharp decline in sales through Bancassurance channel, falling 12.3% q-q but rising 7.1% y-y. Premium received via insurance agents ticked down 0.2% q-q but rose 3.3% y-y. In the first nine months of the year, premium grew 43.1% y-y as sales of endowment products, which have high life policy reserve to premium ratio. Thus, BLA will focus on protection products, which require lower reserve and provide higher returns vs endowment products in 4QFY14.

4QFY14 reserve seen still high, BLA plans to revise its policy assumption

A decrease in lower interest rate would prompt BLA to set the still-high reserve in 4QFY14, likewise the second and third quarters. However, the company might change its reserve assumption to reflect lower interest rate and this would partially mitigate impact from high reserve. As BLA focused on protection products, reserve in 4QFY14 is expected to be lower than that the company set in 3QFY14.

FY14 earnings projection cut to Bt1.2bn to reflect extra high reserve

We cut our FY14 net profit forecast by 72% from Bt4.2bn to Bt1.2bn, which represents a 73.3% y-y decline, to reflect the extra-high reserve in 3QFY14 and likely in 4QFY14. Our dividend estimate is now lower to Bt0.63 (including dividend stock), translating to yield of 1.2%. In 2015, the high reserve convinces us to revise down our net profit estimate by 11.5% from Bt5.3bn to Bt4.7bn and we expect dividend of Bt0.70, yielding 1.4%.

Capital adequacy ratio under risk-based capital was 282% at end-September, which is higher the 140% minimum level requirement but still below other large insurance companies – at end-2QFY14, AIA capital adequacy ratio stood at 524%, Thai Life Insurance 461%, Muang Thai Life Assurance 447%. This suggests that BLA might pay its shareholders dividend stocks in the foreseeable future.

‘ACCUMULATE’ rating with price target of Bt57

The valuation downgrade leads our price target lower to Bt57, based on P/BV of 3.3x. As the third-quarter subdued performance already factored into share price, given a deeper pullback, while we foresee brighter prospect next year, we thus rate BLA an ‘ACCUMULATE’ stance.

BLA (Btmn)	3Q14	2Q14	3Q13	y-y+/-	q-q+/-	9M14	9M13	y-y+/-
Net earned premium	7,245.41	9,768.69	8,372.00	-13.46%	-25.83%	43,725.90	30,445.50	43.62%
Life policy reserve increase from previous year	7,117.93	8,098.98	5,445.56	30.71%	-12.11%	37,631.66	21,206.65	77.45%
Net premium	127.48	1,669.71	2,926.43	-95.64%	-92.37%	6,094.24	9,238.84	-34.04%
Underwriting expense	3,388.83	3,497.36	3,158.80	7.28%	-3.10%	11,410.98	9,420.35	21.13%
Profit from insurance	-3,261.35	-1,827.65	-232.36	1303.56%	78.45%	-5,316.74	-181.51	2829.23%
Other income	2,558.29	2,491.60	2,009.19	27.33%	2.68%	7,080.34	5,760.79	22.91%
Net revenue	-703.06	663.95	1,776.83	-139.57%	-205.89%	1,763.60	5,579.28	-68.39%
Operating expense	481.74	500.68	465.37	3.52%	-3.78%	1,478.51	1,386.15	6.66%
EBT	-1,184.80	163.27	1,311.46	-190.34%	-825.66%	285.09	4,193.13	-93.20%
Net profit	-880.59	168.79	1,100.96	-179.98%	-621.72%	384.24	3,475.70	-88.94%
EPS (Bt)	-0.73	0.14	0.91	-179.91%	-621.57%	0.32	2.87	-88.94%
Life policy reserve/Net earned premium	98.24%	82.91%	65.04%	51.03%	18.49%	98.24%	65.04%	51.03%
ROI	5.12%	5.16%	5.03%	1.71%	-0.79%	5.12%	5.03%	1.71%
Opex/Net earned premium	6.38%	4.86%	5.29%	20.53%	31.19%	6.38%	5.29%	20.53%
Balance sheet (Btmn)							0	
Assets	210,428.23	205,002.69	167,384.23	25.72%	2.65%	210,428.23	167,384.23	25.72%
Liabilities	186,433.83	180,682.84	145,417.78	28.21%	3.18%	186,433.83	145,417.78	28.21%
Paid-up (m shrs) - Par Bt10	1,212.65	1,212.32	1,211.60	0.09%	0.03%	1,212.65	1,211.60	0.09%
Equities	23,994.40	24,319.85	21,966.45	9.23%	-1.34%	23,994.40	21,966.45	9.23%
Book value/share(Bt)	19.79	20.06	18.13	9.14%	-1.37%	19.79	18.13	9.14%

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Income Statement (Btmn)					
Net earned premium	31,067	34,128	38,795	52,373	56,040
Life policy reserve increase from previous year	20,197	22,873	25,357	43,208	38,107
Net premium	10,870	11,255	13,438	9,165	17,933
Underwriting expense	9,728	11,094	13,939	15,372	20,062
Profit from insurance	1,142	161	(501)	(6,206)	(2,130)
Other income	5,040	6,185	7,640	9,643	10,744
Net revenue	6,182	6,346	7,139	3,437	8,615
Operating expense	1,339	1,582	1,828	1,974	2,729
Profit Before Tax	4,842	4,764	5,311	1,462	5,886
Taxation	1,425	1,041	930	292	1,177
Profit After Tax	3,417	3,724	4,381	1,170	4,709
Non-controlling interest	0	0	0	0	0
Net Income, reported	3,417	3,724	4,381	1,170	4,709
Net Income, adj.	3,417	3,724	4,381	1,170	4,709

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Per share data (Bt)					
EPS, reported	2.85	3.09	3.62	0.69	2.76
EPS, adj.	2.85	3.09	3.62	0.69	2.76
DPS	0.72	0.72	0.91	0.63	0.70
BVPS	11.19	16.16	18.37	13.37	15.58

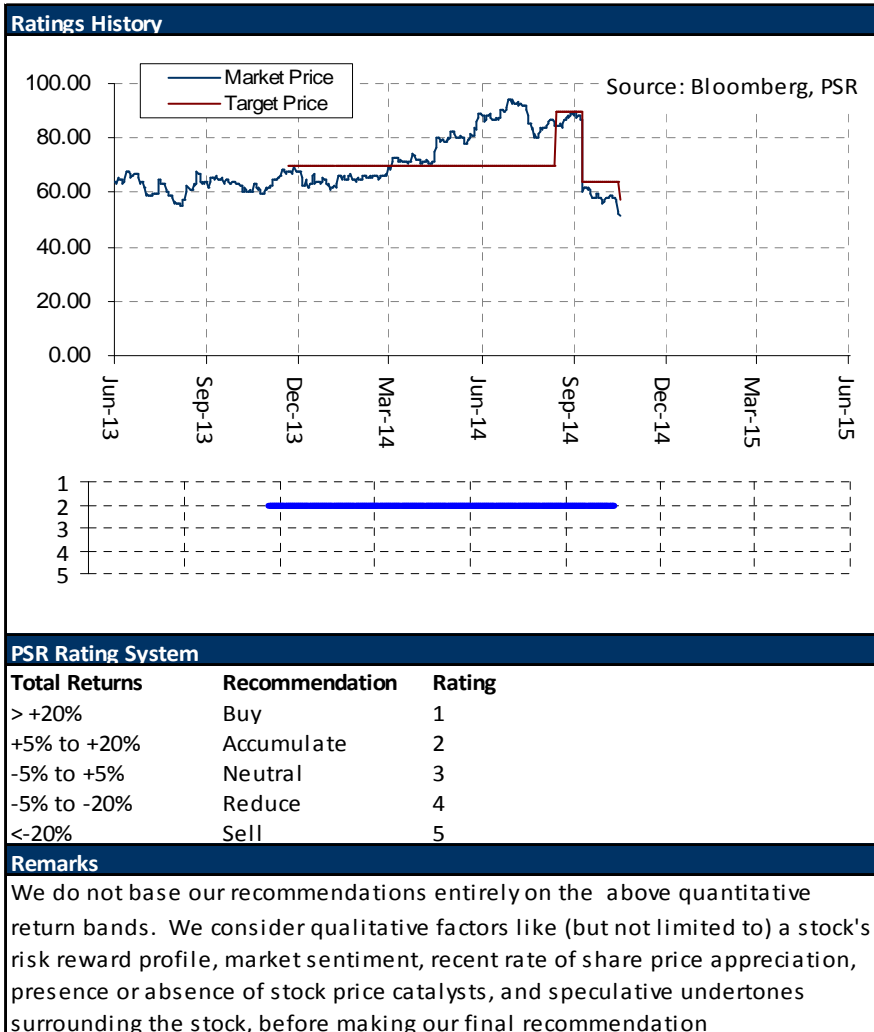
FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.**	18.2	16.7	14.3	75.1	18.8
P/B (X), adj.**	4.6	3.2	2.8	3.9	3.3
Dividend Yield (%)	1.4%	1.4%	1.8%	1.2%	1.4%

Growth & Margins (%)					
Growth					
Net earned premium	20.1%	9.9%	13.7%	35.0%	7.0%
Profit from insurance	29.8%	-85.9%	-410.8%	n.m.	-65.7%
Other income	28.9%	22.7%	23.5%	26.2%	11.4%
Net revenue	29.1%	2.7%	12.5%	-51.9%	150.7%
Operating expense	11.8%	18.1%	15.6%	8.0%	38.2%
Net income	22.2%	9.0%	17.6%	-73.3%	302.5%
Margins					
ROI	5.2%	5.0%	5.0%	4.9%	4.9%
Key Ratios					
ROE (%)	28.1%	22.6%	21.0%	5.2%	19.1%
ROA (%)	3.4%	2.9%	2.8%	0.6%	2.1%
Reserve/Net earned premium	65.0%	67.0%	65.4%	82.5%	68.0%
Reserve&Benefit paid/Net earned premium	82.3%	86.2%	90.1%	90.5%	89.0%
Opex/Net earned premium (%)	4.3%	4.6%	4.7%	3.8%	4.9%
D/E ratio (X)	7.4	6.4	6.7	7.9	8.1

Source: Company Data, PSR est

**Based on latest closing price

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Balance Sheet (Btmn)					
Cash	2,737	866	1,331	1,733	2,079
Accrued investment income	1,376	1,500	1,863	1,676	1,509
Premium receivables	2,313	1,613	1,840	1,932	2,028
Reinsurance assets	332	510	790	830	871
Investment assets	103,082	134,979	161,126	193,662	232,394
Loans	2,113	2,649	3,526	3,784	4,541
Property, buildings and equipment	306	305	327	325	323
Other assets	201	1,145	1,433	1,474	1,517
Total Assets	112,459	143,567	172,234	205,416	245,263
Income tax payable	739	582	257	270	284
Amount due to reinsurers	267	400	450	473	496
Life policy reserve	88,386	111,259	136,616	160,566	191,877
Premium reserve	1,085	1,078	1,021	1,738	2,077
Other insurance liabilities	7,269	7,709	7,779	11,469	13,705
Other liabilities	1,283	3,075	3,847	5,179	6,564
Total liabilities	99,028	124,103	149,971	179,694	215,002
Share capital	1,200	1,205	1,212	1,697	1,708
Retained earnings	7,054	10,283	13,747	13,753	17,473
Other reserves	2,478	5,153	4,391	4,391	4,523
Shareholder Equity	13,431	19,465	22,264	22,696	26,605
Non-controlling interest	0	0	0	0	0
Total Equity	13,431	19,465	22,264	22,696	26,605



Industry Group Name	Sector Name	Sector Index
Agro & Food Industry [AGRO]	Agribusiness	AGRI
	Food & Beverage	FOOD
Consumer Products [CONSUMP]	Fashion	FASHION
	Home & Office Products	HOME
	Personal Products & Pharmaceuticals	PERSON
Financials [FINCIAL]	Banking	BANK
	Finance & Securities	FIN
	Insurance	INSUR
Industrials [INDUS]	Automotive	AUTO
	Industrail Materials & Machinery	IMM
	Packaging	PKG
	Paper & Printing Materials	PAPER
	Petrochemicals & Chemicals	PETRO
	Steel	STEEL
Property & Construction [PROPCON]	Construction Materials	CONMAT
	Construction Services	CONS
	Property Development	PROP
	Property Fund & REITs	FP&REIT
Resources [RESOURC]	Energy & Utilities	ENERG
	Mining	MINE
Services [SERVICE]	Commerce	COMM
	Media & Publishing	MEDIA
	Health Care Services	HEALTH
	Tourism & Leisure	TOURISM
	Professionals Services	PROF
	Transportation & Logistics	TRANS
Technology [TECH]	Electronic Components	ETRON
	Information & Communication Technology	ICT

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Naree Apisawattakan	Securities Investment Analyst #17971	662 635 1700#484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment Analyst #17970	662 635 1700#483	Transportation, Media & Publishing, Tourism
Ornmongkol Tantitanatorm	Capital Market Investment Analyst #34100	662 635 1700#491	Automotive, Energy, Packaging
Adisorn Muangparnchon	Securities Investment Analyst #18577	662 635 1700#497	Banking, Securities & Finance, Insurance
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Results Presentation

Score Range	Number of Logo
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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