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## Thailand Insurance

Reuters BLA.BK  
Bloomberg BLA TB

### Priced on 12 May 2014

Thai SET @ 1,375.1

12M hi/lo Bt74.00/55.25

12M price target Bt87.00  
±% potential +22%

Shares in issue 1,210.8m  
Free float (est.) 40.0%

Market cap US\$2,660m

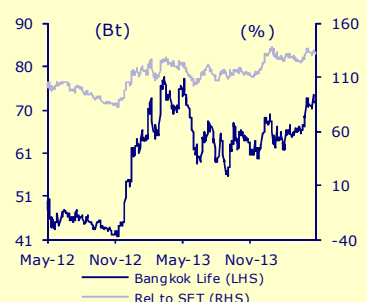
3M average daily volume  
Bt34.3m (US\$1.1m)

Foreign s'hlding 25.0%

Major shareholders  
Sopanpanich Group 35.0%  
Nippon Life Insurance 25.0%

### Stock performance (%)

	1M	3M	12M
Absolute	0.0	8.3	(3.4)
Relative	1.0	3.5	14.0
Abs (US\$)	(1.0)	8.1	(11.7)



Source: Bloomberg

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## Lowered base to grow upon

We remain a buyer of Bangkok Life Assurance (BLA) and maintain our target price of Bt87. We integrate 1Q14 results with earnings in line with our expectations, but a bigger than expected increase in premium sales. We also integrate the 2013 embedded value (EV) disclosure, which we believe has been pushed lower by management and is easier to grow upon. We prefer BLA for potential to exceed domestic economic growth.

### Picking low hanging fruit in 1Q14

The 1Q14 earnings of B1.1bn were in line with our expectations at 23% of 14CL. The notable variance from our expectation in the result was the premium revenue of Bt27bn, up 104% YoY. Though we expected Bangkok Life to see high growth due to sales of a single premium product, we did not expect the premium sales to increase so much. The better than expected premium revenue does not impact 14CL earnings because 84% of premiums related to a low profit single premium product.

### Lowered EV and VNB to grow from

BLA's embedded value for 2013 fell short of our forecast 16% growth YoY because EV was reduced by Bt4.3bn for unrealized losses on investments. However, unrealized gains on liabilities are not included in the valuation, which we believe causes the EV to be understated. EV grew 11.5% YoY to Bt32.6bn (from and lowered 2012 base). The reported value of new business (VNB) declined 2.5% YoY to Bt1.9bn, well below our expectations as the actuary found the mix of products sold during 2013 less profitable than we estimated.

### Less revenue higher margin during the remainder of 2014

We expect BLA to focus on insurance products with higher profit margin during the remainder of the year. In April, BLA halted the sale of the low margin single premium product that sold well during March and management has guided products with higher profitability would be in focus.

### Target price maintained at Bt87 after revisions

We maintain our target price at Bt87 as we use a more aggressive VNB multiple of 17x (from 13x) after the insurer reduced the base upon which the VNB would grow. We maintain our positive view on the insurer as BLA has a unique opportunity to better cross sell bancassurance to Bangkok Bank's deposit customers.

### Financials

Year to 31 December	12A	13A	14CL	15CL	16CL
Gross premiums (Btm)	34,640	39,079	50,831	49,294	55,866
Net profit (Btm)	3,705	4,333	4,774	5,292	5,775
NP forecast change (%)	-	-	(1.7)	(1.2)	(0.6)
EPS (Bt)	3.1	3.6	3.9	4.4	4.8
CL/consensus (11) (EPS%)	-	-	92	91	87
EPS growth (% YoY)	8.6	16.4	9.8	10.8	9.1
ROE (%)	22.5	20.8	19.8	18.9	17.9
ROA (%)	3.0	2.8	2.6	2.4	2.2
PE (x)	23.2	19.9	18.2	16.4	15.0
PB (x)	4.4	3.9	3.3	2.9	2.5
P/EV (x)	2.9	2.7	2.0	1.8	1.6

Source: CLSA

1Q14 was in line with expectations at Bt1.1bn

BLA's single premium bancassurance product offered an IRR of 3.25% to 3.75%

## Picked low hanging fruit in 1Q14

The bottom line for 1Q14 was in line with our expectations at Bt1.1bn (23% of 14CL). We had expected high March premium sales growth after BLA guided sales of their single premium product had been solid, but Bt27bn (up 104% YoY) was more than we had in mind

In a recent analyst meeting, management disclosed the premium sales growth driver was a single premium product. However, BLA also noted that renewal premiums were solid. Management guided there was a benefit to selling the low profit product as it expanded the customer base and provides some economies of scale. BLA's single premium bancassurance product offered an IRR of 3.25% to 3.75% (the higher rate offered to purchasers of policies worth over Bt1m). The insurer also offered a popular 10-year single premium product with an IRR of 4% via its agents.

Net investment income was up 20% YoY, and was in line with our expectations. Underwriting expenses increased 103% YoY, which was more than we expected due to the high net premium sales figure.

Operating costs remained more controlled than we expected. Management said that it still planned to increase the marketing budget this year and the costs would likely start to appear during 2Q14 onward.

Figure 1

### Quarterly earnings summary

Bangkok Life Assurance - BLA TB	1Q13	2Q13	3Q13	4Q13	1Q14	QoQ %	YoY %
Income statement							
Gross premiums	13,224	9,215	8,498	8,142	26,956	231	104
Net premiums	12,978	9,095	8,372	8,350	26,712	220	106
Net investment income	1,675	1,703	1,909	1,768	2,014	14	20
Gain (loss) on investment securities	227	173	105	88	46	(47)	(80)
Total revenue	14,881	10,971	10,387	10,205	28,772	182	93
Underwriting expenses	(13,268)	(8,754)	(8,604)	(8,669)	(26,940)	211	103
Operating Expenses	(426)	(431)	(443)	(420)	(424)	1	0
Profit from underwriting	1,187	1,786	1,339	1,116	1,408	26	19
Profit from operations	1,145	1,801	1,333	1,140	1,378	21	20
Contribution to Office of insurance commission	(27)	(15)	(14)	(13)	(45)	233	69
Contribution to Life Guarantee Fund	(13)	(9)	(8)	(8)	(27)	232	104
Pre-tax income	1,105	1,777	1,311	1,118	1,307	17	18
Tax	(183)	(324)	(211)	(213)	(211)	(1)	15
Net income	922	1,453	1,101	905	1,096	21	19
EPS	0.76	1.20	0.91	0.75	0.91		
% Effective tax rate	17	18	16	19	16		

Source: CLSA and company statements

### Lowered the actuarial valuation base

The initial reports of BLA reported disappointing embedded value (EV) growth at 6.6% YoY for 2013 (we were expecting 16%) and value of new business (VNB) declined of 2.5% YoY compared to 13CL growth of 13%.

Clarification from the company showed that the growth in EV was 11.5% YoY as the base for 2012 was reduced by Bt1.4bn (4.4%). Though management did not provide detail of the restatement of the 2012 EV, they said the

Clarification from the company showed that the growth in EV was 11.5% YoY

The key drag on EV was an unrealized loss on investment in assets that will be held to maturity

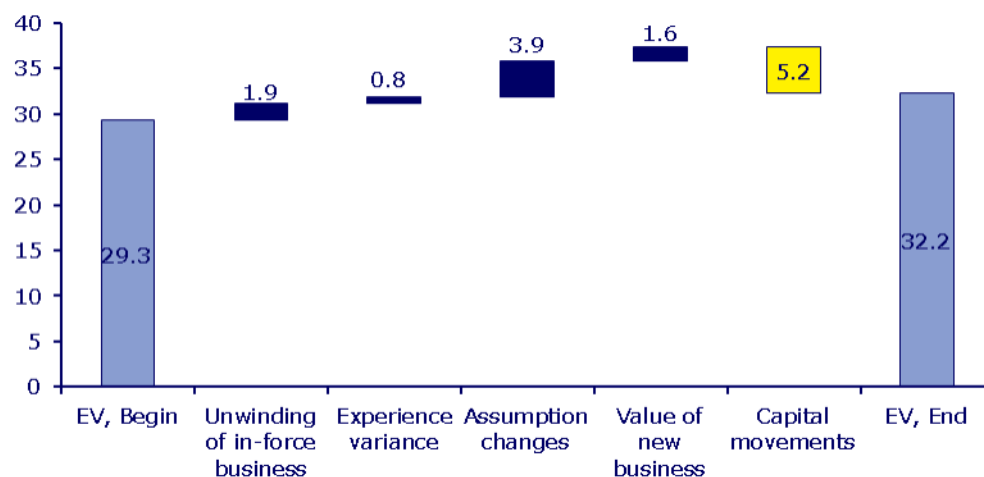
BLA did not include unrealized gains on liabilities in the embedded value

About Bt4.3bn of the Bt5.2bn decline from capital movements

reduction was due to the adoption of new accounting standards related to taxes.

Figure 2

#### Embedded value roll forward for 2013 (Btbn)

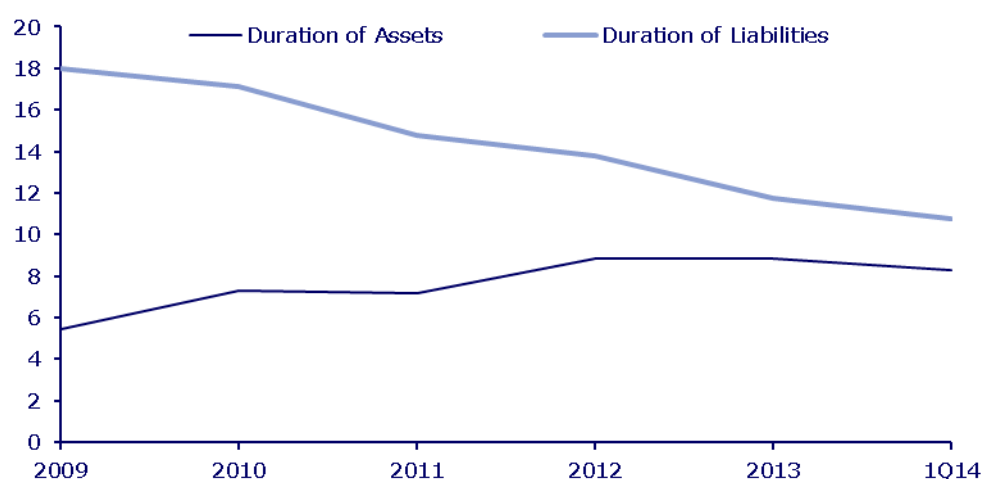


Source: CLSA and company statements

Unwinding of in-force policies contributed 6.4 ppt of the growth. BLA also benefitted from assumption changes. The key assumption change was a more efficient use of capital over time. In addition, the insurer cut their corporate tax assumption to 20% from 30% (in line with our view that they were too conservative on the assumption).

Figure 3

#### Duration gap for assets and liabilities



Source: CLSA and company statements

About Bt4.3bn of the Bt5.2bn decline from capital movements was the result of the rise in interest rates at year end that caused unrealized losses in their investment portfolio. Management guided the reduction distorts the EV calculation because unrealized gains on liabilities, which have a longer average duration than assets, are not included in the EV (and probably won't be in the future).

**Bond yields declined so far this year**

Bond yields have declined this year (the 10-year Thai treasury yield is currently below 3.6% vs over 4% at end 2013). A repeat of the loss during 2014 seems unlikely

Figure 4

**Actuarial assumptions**

	2009	2010	2011	2012	2013
<b>Risk discount rate</b>	Assumed 10% per annum	Base discount rate of net tax distributable earnings is 10%. Sensitivity to 9% and 11% provided	No change	No change	No change
<b>Investment returns</b>	Assumed 5.25% per annum	Investment return, net of investment expenses at 5% per annum	No change	No change	No change
<b>Taxation</b>	25% income tax rate for 2010-2012, and 30% thereafter	25% income tax rate for 2011-2012, and 30% thereafter	23% income tax rate for 2012, 20% for 2013-2014 and 30% thereafter	20% income tax rate through 2014 and 30% thereafter	20% income tax
<b>Operating Expenses</b>	N/A	Company's most recent experience	No change	No change	
<b>Mortality</b>	N/A	Company's experience and 30% of 1997 Thai Mortality table. Mortality assumption used for all products.	Company's most recent 3-year experience and 30% of 1997 Thai Mortality table. Mortality assumption used for all products.	Based on the Company's experience and 2008 Thai Mortality table. Mortality assumptions vary by product	No change. Clarified the assumption for mortality rates were derived by taking into consideration BLA's mortality experience during 2011, 2012 and 9M13.
<b>Loss Ratio</b>	N/A	Most recent year's experience	No change	Average of 3 years experiences.	No change
<b>Commissions</b>	N/A	N/A	Based on the current costs	No change	
<b>Inflation</b>	N/A	N/A	Assumed 3% inflation per annum.	No change	Assumed 2.25% inflation per annum.
<b>Persistency</b>	N/A	N/A	Varies by sales channel, product type, premium payment and policy duration	No change	No change. Clarified that nearly 3 years of experience is used to calculate
<b>Cost of capital</b>	N/A	N/A	N/A	N/A	Changed the insurance risk charge calculation from a fixed percentage of NPV reserves to the difference between the projected GPV95 and GPV75 reserves for future years

Source: CLSA and company statements

Figure 5

**Actuary's value in force sensitivity**

	Change	Impact (Btbn)	Per share (Bt)
Investment returns	25 bp	2.62	2.2
Capital requirement	25%	1.36	1.1
Maintenance expenses	10%	0.54	0.4
Morbidity	10%	0.42	0.3
Mortality	10%	0.36	0.3
Lapses	10%	0.16	0.1

Source: CLSA and company statement

The bottom line has not been changed much

Figure 6

**Actuary's value of new business sensitivity**

	Change	Impact (Btbn)	Per share (Bt)
Maintenance expenses	10%	0.63	0.5
Lapses	10%	0.57	0.5
Morbidity	10%	0.47	0.4
Mortality	10%	0.45	0.4
Investment returns	25 bp	0.26	0.2
Capital requirement	25%	0.13	0.1

Source: CLSA and company statements

**More focused on higher margin products for the remainder of 2014**

Management guided the insurer will focus efforts on more profitable products for the remainder of 2014. The attractive, low profit single premium product has been taken off the market. We have adjusted our premium forecast for the large figure reported during 1Q14, but the bottom line has not been changed much.

Figure 7

**Changes to key assumptions and metrics**

	14CL			15CL			16CL		
	New	Old	Change (ppt)	New	Old	Change (ppt)	New	Old	Change (ppt)
Nominal GDP growth %	4.7	4.7	0.0	7.6	7.6	0.0	8.0	8.0	0.0
Industry premium growth %	14.0	10.1	3.9	7.6	11.5	(3.9)	11.5	11.5	0.0
BLA premium growth %	30.1	11.5	18.6	(3.0)	13.0	(16.0)	13.3	13.5	(0.1)
FYP growth %	9.7	9.7	0.0	16.1	16.1	0.0	12.1	12.1	0.0
Avg investment yield %	4.60	4.70	(0.10)	4.60	4.70	(0.10)	4.6	4.7	(0.10)
Life reserve / premiums	88.76	88.76	0.00	86.20	87.22	(1.02)	86.2	86.9	(0.73)
Opex/avg assets %	0.96	1.05	(8.57)	0.85	1.02	(16.67)	0.80	0.80	0.00
Corporate tax rate %	20.0	20.0	0.0	20.0	20.0	0.0	20.0	20.0	0.0

Source: CLSA

Higher growth rate of a lowered base likely

**Valuation adjusted for revised base**

We revise our target price calculation after the company made assumptions more conservative and trimmed the base for value of new business sharply. With a lower base for both EV and VNB, we believe the insurer would maintain a higher growth rate. We increase our VNB multiple to 17x (from 13x) as we maintain our target price at Bt87.

Figure 8

**Valuation calculation using end 2016 EV and 2016 VNB**

	EV	VNB	Total
End-16CL (Bt/sh)	46	2.5	
VNB multiple (x)	1	17	
Bt/share	46	42	87

Source: CLSA

**We cross check our valuation with a dividend discount model**

To get a better gauge of the value of the stock with a DDM, we use a three-stage Gordon growth model. Since BLA is in a high-growth phase, the payout ratio has been held near the minimum requirement of 25% over the past four years. The insurer is likely to maintain this ratio until the growth outlook ebbs. When growth slows, both its accounting profit and dividend-payout ratio are likely to rise.

**Cross-check our valuation  
with reasonable dividend  
discount model  
assumptions.**

The first stage is our visible forecast. The second stage is a high-growth phase of 15% to year 20. Dividends would be driven by top-line growth (or if growth slows, payout expansion). Thereafter, we use a terminal growth rate of 6%.

To reach our target price, growth during the high-growth phase would need to be 15% per annum. We believe the figure is achievable, given our expectation that BLA's premium Cagr will be 10-15% over the next 15-20 years as the industry enjoys growth in excess of nominal GDP growth. BLA should also enjoy increasing economies of scale as it grows. Should growth look like it will slow, we believe BLA will raise its dividend-payout ratio.

Figure 9

<b>Assumptions for DDM cross-check</b>	
Payout ratio to 2016 (%)	25
Visible dividend (Bt):	
2013	0.91
16CL	1.20
Dividend Cagr, high-growth phase, 17-32CL (%)	15
Long-term growth (%)	6
Cost of equity (%)	10
Sum of PV (2015-33), (Bt/sh)	29
PV of terminal value (Bt/sh)	58
<b>Total PV of dividends (Bt/sh)</b>	<b>87</b>

Source: CLSA

Figure 10

**Regional valuation comparison**

Company	Code	Rec	ADT (US\$m)	MktCap (US\$Bn)	Price (lc)	Target (lc)	+/- %	14CL					
								P (EV)	PE (x)	PB (x)	Yield (%)	ROE (%)	ROA (%)
Bangkok Life Assurance	BLA TB	BUY	1.1	2.7	72	87	22	2.0	18.2	3.3	1.4	19.8	2.6
AIA Group Ltd	1299 HK	SELL	112.7	59.4	38	35	(9)	1.6	16.6	2.1	1.4	13.7	2.3
China Life Insurance	2628 HK	U-PF	116.6	65.8	20	24	19	1.4	18.2	2.3	1.9	13.5	1.4
China Taiping Insurance	966 HK	U-PF	4.7	3.8	12	17	39	0.6	16.9	1.2	-	7.6	0.5
China Pacific Insurance	2601 HK	U-PF	76.4	25.3	24	29	21	1.2	20.1	2.0	1.4	10.7	1.5
The People's Insurance	1339 HK	SELL	9.9	16.1	3	3	8	2.5	11.6	1.5	-	14.2	1.8
Ping An Insurance	2318 HK	BUY	296.3	53.8	57	80	40	1.2	14.2	2.1	1.0	16.1	1.1

Source: CLSA

## Company outline

### The business

Bangkok Life Assurance was formed as Siam Life Assurance in 1951 and has operated under its current name since 1979. It listed on Thailand's stock exchange in 2009. During 2013, BLA generated Bt28.5bn in income from renewal policies and Bt10.5bn in first-year/single premiums. BLA ranked fifth in terms of total premiums sold with a market share of 8.8%. BLA's total premium sales increased 13% YoY in 2013, while we estimate 70% of its products were sold through Bangkok Bank branches and 30% through agents. Of total premiums, 56% were endowment and 44% were whole life and credit life protection during 9M13.

### Competition & market franchise

The Thai insurance sector's total premiums reached Bt442bn in 2013, up 13% YoY (slowing from 19% YoY during 2012). As the industry grows, dominance is shifting away from large multinational insurers to domestic banks with large distribution networks and customer bases. Competition remains focused on product, marketing and service rather than price. Bangkok Bank (BBL) sells BLA's insurance products exclusively through its more than 1,070 branches (16% of total commercial bank branches in Thailand). BLA says it has more than 5,000 active sales agents.

## Summary financials

Year to 31 December	2012A	2013A	2014CL	2015CL	2016CL
<b>Summary P&amp;L forecast (Btm)</b>					
<b>Gross premiums written</b>	<b>34,640</b>	<b>39,079</b>	<b>50,831</b>	<b>49,294</b>	<b>55,866</b>
Net earned premiums	34,128	38,795	49,966	48,456	54,916
<b>Total investment income</b>	<b>6,184</b>	<b>7,649</b>	<b>9,150</b>	<b>10,959</b>	<b>12,843</b>
Other income	-	-	-	-	-
<b>Total revenue</b>	<b>40,312</b>	<b>46,444</b>	<b>59,117</b>	<b>59,416</b>	<b>67,759</b>
Claims and benefits	(31,208)	(36,591)	(47,792)	(47,189)	(54,278)
General & admin exp	(717)	(809)	(809)	(798)	(878)
Other expenses	(2,758)	(2,705)	(3,248)	(3,392)	(3,844)
<b>Total expenses</b>	<b>(34,683)</b>	<b>(40,105)</b>	<b>(51,849)</b>	<b>(51,379)</b>	<b>(59,000)</b>
Operating profit	4,858	5,419	6,178	6,829	7,436
Other income & exp	(113)	(156)	(191)	(194)	(197)
<b>Profit before tax</b>	<b>4,745</b>	<b>5,263</b>	<b>5,987</b>	<b>6,635</b>	<b>7,239</b>
Taxation	(1,041)	(930)	(1,213)	(1,343)	(1,464)
Preference dividends	-	-	-	-	-
Profit for period	3,705	4,333	4,774	5,292	5,775
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>3,705</b>	<b>4,333</b>	<b>4,774</b>	<b>5,292</b>	<b>5,775</b>
Adjusted net profit	3,705	4,333	4,774	5,292	5,775
<b>Summary balance sheet forecast (Btm)</b>					
Investments	135,845	162,457	199,118	234,661	274,255
Other assets	7,722	9,778	11,715	12,423	13,801
<b>Total assets</b>	<b>143,567</b>	<b>172,234</b>	<b>210,833</b>	<b>247,084</b>	<b>288,055</b>
Policyholder reserves	120,447	145,867	180,332	211,995	248,105
<b>Total liabilities</b>	<b>124,103</b>	<b>149,971</b>	<b>184,854</b>	<b>216,994</b>	<b>253,493</b>
Shareholder funds	19,465	22,264	25,979	30,090	34,562
Minorities/other equity	0	0	0	0	0
<b>Total equity</b>	<b>19,465</b>	<b>22,264</b>	<b>25,979</b>	<b>30,090</b>	<b>34,562</b>
<b>Total liabs &amp; equity</b>	<b>143,567</b>	<b>172,234</b>	<b>210,833</b>	<b>247,084</b>	<b>288,055</b>
<b>Ratio analysis</b>					
Expense ratio (%)	78.0	80.2	79.1	75.9	75.8
Loss ratio (%)	20.0	20.4	21.3	26.7	28.2
Combined ratio (%)	98.1	100.6	100.4	102.6	104.0
Investment yield (%)	4.6	4.7	4.6	4.6	4.6
Adjusted EPS (Bt)	3.08	3.59	3.94	4.36	4.76
Adjusted BVPS (Bt)	16.16	18.37	21.42	24.81	28.50
Adjusted PE (x)	23.2	19.9	18.2	16.4	15.0
Adjusted PB (x)	4.4	3.9	3.3	2.9	2.5
ROE (%)	22.5	20.8	19.8	18.9	17.9
Adjusted ROE (%)	22.5	20.8	19.8	18.9	17.9
ROA (%)	3.0	2.8	2.6	2.4	2.2
Adjusted ROA (%)	3.0	2.8	2.6	2.4	2.2
PE (x)	23.2	19.9	18.2	16.4	15.0
PB (x)	4.4	3.9	3.3	2.9	2.5
P/EV (x)	2.9	2.7	2.0	1.8	1.6
EPS (Bt)	3.08	3.59	3.94	4.36	4.76
BVPS (Bt)	16.16	18.37	21.42	24.81	28.50
DPS (Bt)	0.72	0.91	1.00	1.10	1.20
Dividend yield (%)	1.0	1.3	1.4	1.5	1.7
NBV (Btm)	1,910	1,862	2,178	2,548	2,982
NBV/share (Bt)	1.59	1.54	1.80	2.10	2.46
NBV growth (% YoY)	19.0	(2.5)	17.0	17.0	17.0
EV (Btm)	29,260	32,640	43,552	48,931	55,093
EV/share (Bt)	24.29	26.94	35.91	40.35	45.43
EV growth (% YoY)	15.2	11.6	33.4	12.4	12.6

Source: CLSA

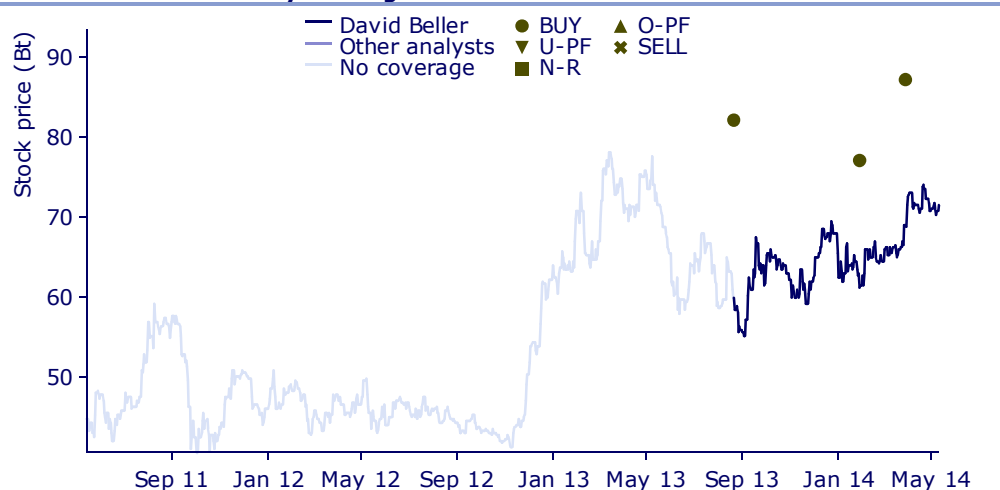


### Companies mentioned

Bangkok Life (BLA TB - BT71.50 - BUY)

Bangkok Life (BLA TB - BT71.5 - BUY)

### Recommendation history of Bangkok Life Assurance PCL BLA TB



Date	Rec	Target	Date	Rec	Target
30 Mar 2014	BUY	87.00	22 Aug 2013	BUY	82.00
30 Jan 2014	BUY	77.00			

Source: CLSA



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