

Bangkok Life Assurance

BLA TB / BLA.BK

16 May 2016

Quarter sees big loss on provisioning

Result for 1Q16 turned to Bt4bn+ deeper loss than our estimate

BLA posted a 1Q16 loss of Bt6.9bn against its earnings of Bt765m in the same period last year and profit of Bt2.3bn in the previous quarter. The result was substantially worse than our loss forecast of Bt2.1bn and the Bloomberg consensus' profit forecast of Bt840m, attributable to the bigger extra provisions for lower long-term bond yield than was assumed (BLA set provision of Bt10.4bn; we had projected Bt6.5bn).

Results highlights

Net total premiums for the quarter dipped 18% YoY but were flat QoQ to Bt12.9bn, in line with our forecast number. During the quarter, BLA set provisions of Bt17.8bn for its life-policy reserve equal to 138.8% of total premiums (against our number of 80%)—its loss ratio—which was substantially over our number. The bigger provisioning was caused by the extra provision of Bt10.4bn for reserve based on the Liability Adequacy Test (LAT) as the 10-year long-term bond yield plunged 80bps to 1.7% during 1Q16. As such, this could allow BLA to write back its provisions if the yield recovers in 2H16. This implies that the firm might set normal provision for life-policy reserve for the rest of the year.

ROI in 1Q16 slipped to 5.4% from 6.7% in the same period last year (but up from 4.3% in the last quarter). The poor YoY ROI was due to a low investment gain of Bt555m from equities during 1Q16 from Bt1bn in the same period last year. Note that its investment income was Bt2.72bn, up 8.0% YoY and 10% QoQ.

Outlook

We expect earnings to show small growth YoY from the low provision for its life-policy reserve and bigger sales on high margin products.

What's changed?

We cut our FY16 profit forecast from Bt2bn to a small loss of Bt750m to reflect bigger provision for interest rate risks as mentioned above.

Recommendation

BLA will arrive at less risk aversion on extra provisioning for interest rate risk and ROI reduction after the 10-year bond yield rebounded to 1.7% from its bottom of 1.4% in Apr. We have raised our FY16 loss ratio assumptions to 88% up from the former 74% before dropping to the normal of 70% in FY17 (unchanged). These bring BLA's FY16 result to turn into loss of Bt750m before bouncing 660% in FY17 to Bt4.2bn. Given the share price drop of 30% since YE15, we do not expect BLA's share price to drop further as the long-term bond yield recovers in 2H16. Besides, we expect some reverse provision for LAT reserve in 2H16. Given the earnings cut, we have come up with its new economic value of Bt41.50 (derived from new business [VNB] of Bt11.53 and Embedded Value of Bt30.02). Our HOLD rating stands.

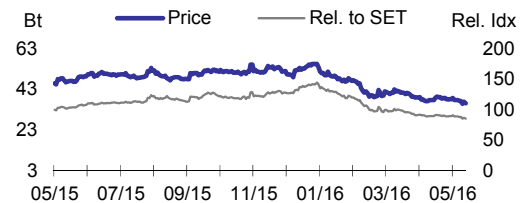
Sector: Insurance – NEUTRAL

Rating: HOLD

Target Price: Bt41.50

Price (13 May 2016): Bt36.25

Price chart

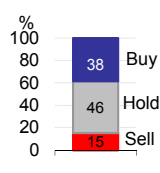


Share price perf. (%)	1M	3M	12M
Relative to SET	(2.4)	(30.7)	(20.4)
Absolute	(2.7)	(22.5)	(27.1)

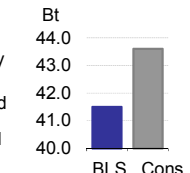
Key statistics

Market cap	Bt61.8bn	USD1.7bn
12-mth price range	Bt35.3/Bt56.3	
12-mth avg daily volume	Bt56m	USD1.6m
# of shares (m)	1,705	
Est. free float (%)	41.6	
Foreign limit (%)	25.0	

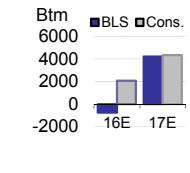
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015	2016E	2017E
Total rev (Btm)	61,427	55,589	62,702	65,678
Net profit (Btm)	2,650	4,108	(750)	4,200
Fully diluted EPS (Bt)	1.55	2.41	(0.44)	2.46
EPS growth (%)	-39.5%	+55.0%	-118.3%	-660.0%
PER (x)	23.4	15.1	(82.5)	14.7
EV/EBITDA (x)	16.4	16.1	(93.2)	16.3
PBV (x)	2.59	2.45	2.11	1.85
Dividend (Bt)	0.51	0.64	0.00	0.74
ROA (%)	1.2	1.6	(0.3)	1.2
Net gearing (x)	7.2	8.0	9.0	8.9
Total loss ratio (%)	82.3	70.4	88.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

CG/Anti-Corruption



Suwat Bumrungratudom

Securities Fundamental Investment Analyst

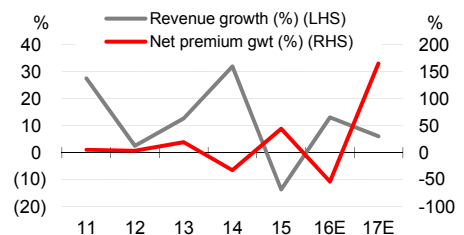
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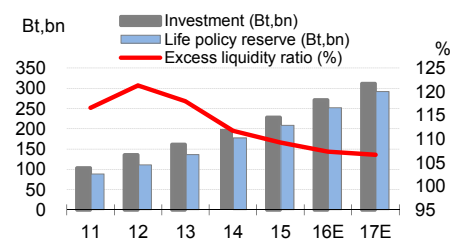
BLA: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015	2016E	2017E
Insurance premium	38,795	51,172	44,175	49,937	52,933
Less Life policy reserve	(25,357)	(42,106)	(31,114)	(43,944)	(37,053)
Net premium	13,438	9,066	13,061	5,992	15,880
Underwriting expenses	(13,939)	(14,243)	(17,473)	(17,963)	(21,423)
Profit from insurance	(501)	(5,177)	(4,412)	(11,971)	(5,543)
Revenue on investment	7,601	10,255	11,414	12,765	12,745
Other income/exp.	39	48	64	550	583
Net revenue	7,139	5,126	7,066	1,344	7,785
Operating expenses	(1,828)	(2,033)	(2,179)	(2,348)	(2,686)
EBIT	5,311	3,093	4,887	(1,003)	5,100
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(443)	(779)	253	(900)
Net profit (loss)	4,381	2,650	4,108	(750)	4,200
Reported EPS	3.62	1.55	2.41	(0.44)	2.46
Fully diluted EPS	3.62	1.55	2.41	(0.44)	2.46
Core net profit	4,341	2,602	4,044	(1,300)	3,617
Core EPS	3.58	1.52	2.37	(0.76)	2.12
EBITDA	5,407	3,189	4,983	(908)	5,196
KEY RATIOS					
Revenue growth (%)	12.7	31.9	(13.7)	13.0	6.0
Gross margin (%)	15.4	8.3	12.7	2.1	11.7
EBITDA margin (%)	11.6	5.2	9.0	(1.4)	7.8
Operating margin (%)	9.4	4.2	7.3	(2.1)	5.5
Net margin (%)	9.4	4.3	7.4	(1.2)	6.3
Core profit margin (%)	9.4	4.2	7.3	(2.1)	5.5
ROA (%)	2.5	1.2	1.6	(0.3)	1.2
ROE (%)	19.7	10.4	15.2	(2.6)	12.5
Commission/Insurance premium	11.2	9.3	15.0	9.0	13.5
Life policy Provision/insurance premium r	65.4	82.3	70.4	88.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	114.9	128.7	115.5
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	7,102	6,100	4,500
Total investment in securities	161,126	198,238	227,584	270,825	311,449
Total net loans	3,526	4,735	6,139	6,753	7,382
Premises & equipment (Net)	327	389	547	558	569
Other assets	5,925	6,520	8,204	13,586	12,386
Total assets	172,234	215,590	249,576	297,822	336,287
Life policy reserve	136,616	177,435	208,383	252,327	292,030
Unpaid benefit to life policy	8,800	1,489	470	11,661	2,118
Premium received in advance	950	2,239	459	500	550
Other liabilities	3,604	8,851	13,272	4,033	8,088
Total liabilities	149,971	190,013	222,585	268,521	302,787
Paid-up capital	1,212	1,698	1,704	1,704	1,704
Share premium	2,846	3,091	3,220	3,295	3,295
Retained earnings	18,138	20,787	22,017	24,301	28,501
Shareholders equity	22,264	25,576	26,990	29,300	33,500
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	172,234	215,590	249,575	297,822	336,287
CASH FLOW (Btm)					
Net income	4,381	2,650	4,108	(750)	4,200
Depreciation and amortization	136	143	150	157	165
Change in working capital	23,571	39,598	30,708	43,534	37,788
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	28,087	42,390	34,966	42,941	42,153
Capex (Invest)/Divest	(88)	(126)	(247)	(11)	(11)
Others	(27,427)	(49,777)	(39,023)	(38,252)	(46,005)
Cash flows from investing activities	(27,515)	(36,529)	(32,407)	(38,263)	(46,016)
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	0
Dividend payment	(917)	(678)	(1,325)	(1,090)	0
Others	(27,427)	(49,777)	(39,023)	(38,252)	(46,005)
Cash flows from financing activities	(107)	(678)	(1,325)	(1,090)	0
Net change in cash	465	5,183	1,235	3,587	(3,864)
Free cash flow (Btm)	28,000	42,264	34,719	42,930	42,142
FCF per share (Bt)	23.1	24.7	20.3	25.1	24.7
Insurance data					
FYP (Btm)	6,818	8,928	7,707	8,712	9,235
RYP (Btm)	28,545	37,379	32,268	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	44,175	49,937	52,933
FYP mkt (%)	7.8	9.7	8.4	7.6	7.2
Total premium Mkt (%)	7.7	8.9	9.6	8.7	8.9

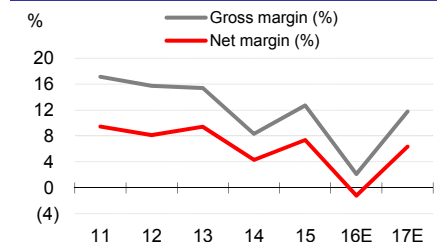
Revenue and net premium growth



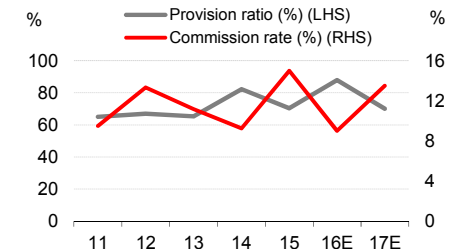
Excess liquidity



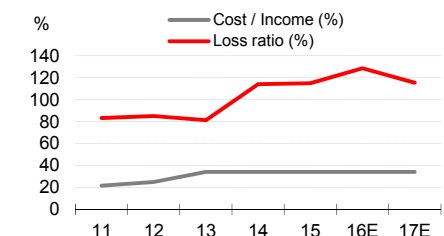
Profit margins



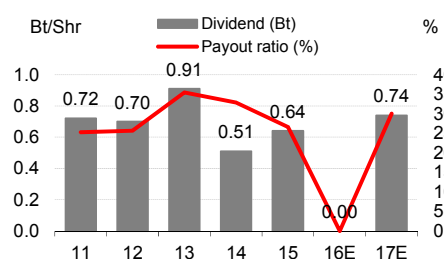
Commission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q15	2Q15	3Q15	4Q15	1Q16
Net insurance premium revenue	15,711	7,252	8,368	12,844	12,856
Less provision for life policy reserve	12,104	2,906	7,241	8,862	17,848
Revenue realization on premium	3,607	4,346	1,127	3,982	(4,993)
Underwriting expenses	5,746	4,127	4,469	3,131	6,564
Profit from insurance business	(2,139)	219	(3,342)	850	(11,556)
Net investment income	2,511	2,466	2,715	2,478	2,716
Gain on investment	1,010	113	91	29	555
Total revenue from investment	3,522	2,579	2,806	2,507	3,270
Other income	15	18	13	18	138
Total revenues	1,398	2,816	(523)	3,375	(8,148)
Total operating expenses	498	571	551	559	541
Exceptional items	0	0	0	0	0
EBT	900	2,245	(1,074)	2,816	(8,689)
Income tax	135	400	(287)	531	(1,801)
Minority Interest	0	(0)	(0)	0	0
Net profit	765	1,844	(786)	2,285	(6,888)
EPS	0	1	(0)	1	(4)
Core profit before tax	(126)	2,113	(1,177)	2,769	(9,382)
Core EPS	(0)	1	(1)	2	(6)

KEY RATIOS

Premium/life policy reserve (%)	33	15	17	25	22
Life policy provision/Premium (%)	77	40	87	69	139
Claim/life policy (%)	24	28	25	27	20
ROI (%)	7	5	5	4	5
Net margin (%)	4	19	(7)	15	(43)
Equity/Life policy reserve (%)	14	14	14	13	13
BV (Bt)	15	16	15	16	14
ROE (%)	12	29	(11)	36	(102)
ROA (%)	1	3	(1)	4	(11)
D/E (x)	7	8	8	9	8
Cost to Income (%)	36	20	147	98	194

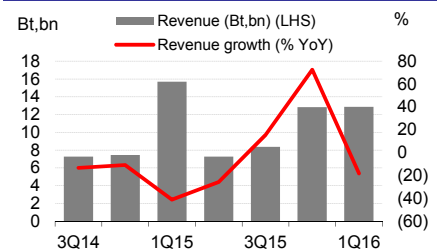
QUARTERLY BALANCE SHEET (Btm)	1Q15	2Q15	3Q15	4Q15	1Q16
Cash & Equivalent	1,405	564	461	7,102	5,590
Total investment in securities	212,733	224,442	226,543	227,584	240,689
Total net loans	4,938	5,430	5,683	6,139	6,463
Premises & equipment (Net)	460	465	534	547	572
Other assets	10,524	7,660	9,097	8,204	13,003
Total assets	230,061	238,561	242,317	249,576	266,318
Life policy reserve	189,539	192,445	199,686	208,383	234,972
Unpaid benefit to life policy	1,690	4,620	1,612	470	699
Premium received in advance	566	628	723	0	0
Other liabilities	12,498	13,473	15,024	13,732	6,395
Total liabilities	204,293	211,167	217,045	222,585	242,065
Paid-up capital	1,200	1,200	1,200	1,704	1,704
Share premium	2,700	2,700	2,700	3,220	3,295
Retained earnings	15,443	16,506	15,176	22,066	19,253
Shareholders equity	25,768	27,394	25,272	26,990	24,253
Minority interests	0	(0)	0	0	0

Insurance data	1Q15	2Q15	3Q15	4Q15	1Q16
FYP (Btm)	1,672	1,052	2,538	3,821	2,410
RYP (Btm)	13,914	5,806	5,398	6,097	10,998
SP (Btm)	436	537	501	3,070	0
Total premium (Btm)	16,022	7,395	8,437	12,988	13,412
FYP+SP mkt (%)	5.3	3.7	7.5	14.1	6.1
Total premium Mkt (%)	12.0	9.5	6.6	8.9	10.0

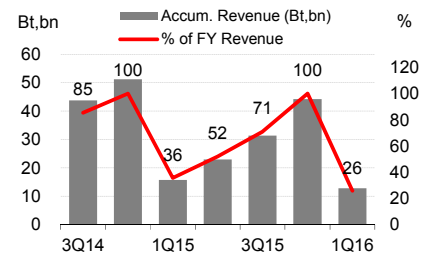
Company profile

Bangkok Life Assurance Public Company Limited (BLA) is one of Thailand's largest pure life assurance players and is a subsidiary of Bangkok Bank (BLL). Its FYP revenue growth is currently about twice the industry average.

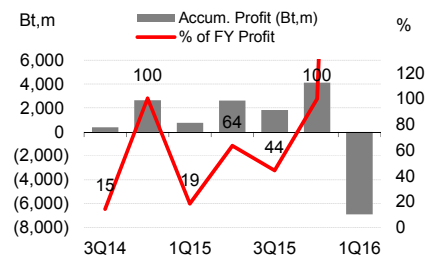
Revenue trend



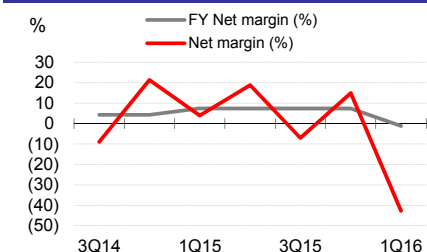
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



ROE

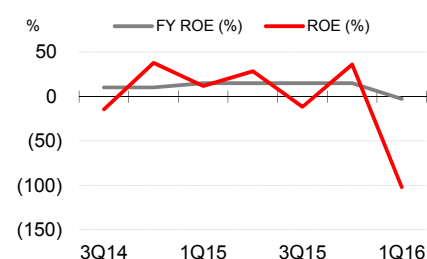


Figure 1 : 1Q16 earnings review

FY Ended 31 Dec (Btm)	1Q16	1Q15	YoY %	4Q15	QoQ %	3M16	3M15	YoY %	
Income Statement									
Net insurance premium revenue	12,856	15,711	(18)	12,844	0	12,856	15,711	(18)	
Less provision for life policy reserve	17,848	12,104	47	8,862	101	17,848	12,104	47	
Revenue realization on premium	(4,993)	3,607	(238)	3,982	(225)	(4,993)	3,607	(238)	
Underwriting expenses	6,564	5,746	14	3,131	110	6,564	5,746	14	
Profit from insurance business	(11,556)	(2,139)	440	850	(1,459)	(11,556)	(2,139)	440	
Net investment income	2,716	2,511	8	2,478	10	2,716	2,511	8	
Gain on investment	555	1,010	(45)	29	1,833	555	1,010	(45)	
Other income	138	15	798	18	678	138	15	nm	
Total revenues	(8,148)	1,398	(683)	3,375	(341)	(8,148)	1,398	(683)	
Total operating expenses	541	498	9	559	(3)	541	498	9	
EBT	(8,689)	900	nm	2,816	(409)	(8,689)	900	nm	
Income tax	(1,801)	135	nm	531	(439)	(1,801)	135	nm	
Net profit	(6,888)	765	nm	2,285	(401)	(6,888)	765	nm	
EPS	(4.04)	0.45	nm	1.34	(401)	(4.04)	0.45	nm	
Key ratios									
Premium/life policy reserve (%)	21.9	33.2		24.7		21.9	33.2		
Life policy provision/Premium (%)	138.8	77.0		69.0		138.8	77.0		
ROI (%)	5.4	6.7		4.3		5.4	6.7		
Tax rate (%)	20.7	15.0		18.9		20.7	15.0		
Net margin (%)	(42.7)	4.0		14.9		(42.7)	4.0		
D/E (x)	8.2	7.4		8.6		8.2	7.4		
Cost to Income (%)	194.1	35.6		97.7		194.1	35.6		
Asset/Equity (%)	9.2	8.4		9.6		9.2	8.4		
Balance Sheet									
Cash & Equivalent	5,590	1,405	298	7,102	(21)				
Total assets	266,318	230,061	16	249,576	7				
Unpaid benefit to life policy	699	1,690	(59)	470	49				
Premium received in advance	0	566	100	0	0				
Total liabilities	242,065	204,293	18	222,585	9				
Retained earnings	19,253	15,443	25	22,066	(13)				
Shareholders equity	24,253	25,768	(6)	26,990	(10)				
Minority interests	0	0	nm	0	nm				
BV (Bt)	14.2	15.1	(6)	15.8	(10)				

- FYPs dipped YoY as expected
- Bigger YoY and QoQ provisioning for extra reserve of LAT
- A lower YoY investment gain
- Lowered YoY ROI, due to less investment gain

Sources: Company data, Bualuang Research estimates

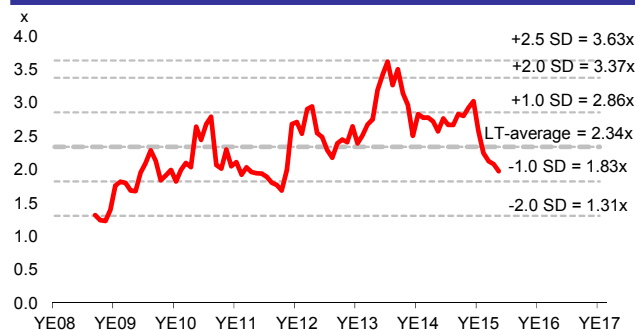
Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)	EPS Growth (%)	PBV (x)	ROE (%)	Div Yield (%)					
	Code	(local curr.)	(US\$ equivalent)	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Ping An Insurance (Group)	601318 CH	CNY31.7	84,830	10.1	9.2	3.1	13.6	1.4	1.3	15.7	16.1	1.7	1.9
China Life Insurance	601628 CH	CNY20.7	81,868	17.4	15.4	0.7	11.5	1.8	1.7	10.4	11.6	2.0	2.1
China Pacific Insurance (Group)	601601 CH	CNY26.6	34,651	15.1	13.3	-8.6	13.7	1.7	1.6	12.1	12.5	2.8	3.0
T&D Holdings	8795 JP	JPY992.4	6,212	7.6	7.3	18.4	3.4	0.5	0.4	6.4	6.3	3.4	3.7
Bangkok Life Assurance	BLA TB	THB36.25	1,743	n.m.	14.7	n.m.	n.m.	2.1	1.8	-2.6	12.5	0.0	2.0
Thaire Life Assurance	THREL TB	THB10.00	169	13.5	12.0	14.5	12.4	4.2	3.9	32.9	33.9	5.7	6.4
Simple average				12.7	12.0	5.6	10.9	2.0	1.8	12.5	15.5	2.6	3.2

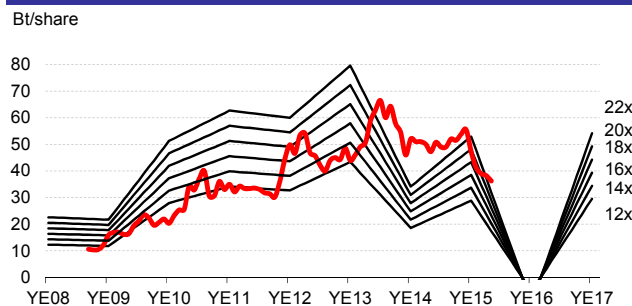
PER band versus SD (next 12 months)



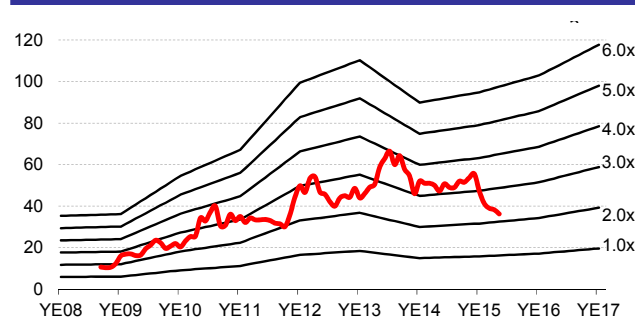
PER band versus SD (next 12 months)



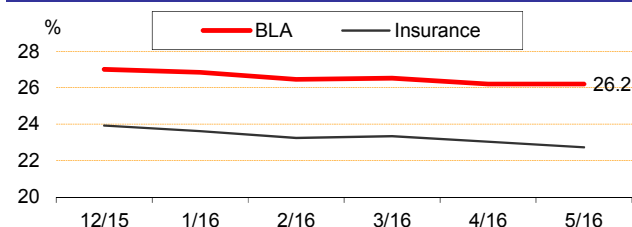
PER band and share price



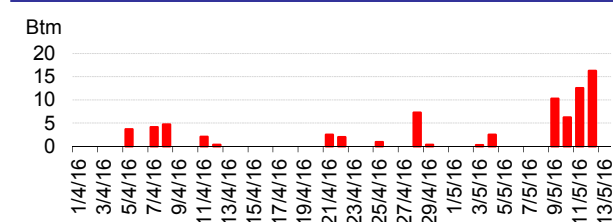
PBV band and share price



Foreign holdings



Short selling activities during past four weeks



Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.