Bangkok Life Assurance

[BLA]

IPO Report

Bright future ahead

- **Solid earnings prospects supported by strong partners and bright industry outlook**
- **Strong distribution channel for bancassurance via BBL to support earnings growth**
- **Expect 2009-10F net profit growth of 66.30% and 14.65%, respectively.**
- **2009-10F fair value estimated at THB18.60/share and THB21.41, respectively**

Solid earnings prospects supported by strong partners and bright industry outlook: There are two main reasons why we see a bright future for BLA and the life insurance business in Thailand. Firstly, in 2008 the value of outstanding life insurance premiums per GDP in Thailand was still very low (at 2.04%) when compared with other countries in the region. The second reason is the financial support that BLA receives from its main shareholders, which includes the Bangkok Bank group (BBL) and Nippon Life Insurance (NISSAY), with the latter being the second largest life insurance company in Japan.

Strong distribution channel for bancassurance via BBL to support earning growth: BLA's net premium income growth continues to outperform the industry. For 1998-2008, BLA achieved 24% CAGR in its net premium income, which was well above the 13% CAGR posted by the entire industry. Note that apart from selling policies via its 12,000 agents, BLA sells its bancassurance products via BBL's network of more than 800 branches nationwide. In 2008, sales of BLA's life insurance policies via this bancassurance channel increased by 68% y-y and since the start of 2009 this rate of growth has remained high.

Expect 2009-10F net profit growth of 66.30% and 14.65%, respectively: BLA's key earnings drivers in 2009-10F are likely to include: 1) the effective management of its investment portfolio backed by 20% annual growth in its total assets under management; and 2) accelerated growth in the company's premium income from the sale of new life insurance policies given its high persistency rate of over 90%; and 3) a reduction in the company's corporate tax rate to 25% in 2010-12F after its IPO and listing on the SET.

2009-10F fair value estimated at THB18.60/share and THB21.41, respectively: We used the appraisal value method to derive our fair values for BLA, as this is the internationally accepted method for valuing life insurance companies. In terms of BLA's fully-diluted profitability ratios for 2009F that include P/E of 16.37x, P/BV of 3.45x and ROE of 26.37%, we found that BLA is more attractive than many of its listed peers in the Asia-Pacific region, as well as the UK, Europe and the Americas.

Risks to our earnings forecasts and valuation: Although there are some risks to our earnings forecasts and valuation for BLA they are not significant in our view. The first risk is redemption of life insurance policies by its customers before they reach the breakeven point due to factors beyond the company's control. However, we believe that this risk is low given BLA's diversified product mix, along with its efforts to carefully screen its customers for health and financial risks that might affect their ability to pay their premiums on schedule. The second risk is changes in regulations for calculating capital. However, this risk should also be limited as well because BLA's solvency ratios for 2009-10F are estimated at 12.6% and 12%, respectively, which would both be well above the minimum solvency ratio of 2% that is required by Thailand's Office of the Insurance Commission (OIC). In addition, BLA also receives financial support from its major shareholders, including BBL and NISSAY. Finally, we believe that the impact of the volatile performance of financial markets, including the SET, on BLA earnings and valuation should be limited due to its low exposure to equities as part of its investment portfolio.

Forecasts and Valuation

Year-end 31 Dec	2006	2007	2008	2009F*	2010F	2011F
Net premium	10,434	12,296	14,732	18,167	22,091	26,950
Net investment income	1,706	1,985	2,430	2,897	3,631	4,472
Operating profit	1,585	1,943	1,986	2,877	3,335	3,953
Net profit	652	770	752	1,250	1,433	1,662
EPS (THB)	0.65	0.77	0.75	1.14	1.19	1.39
EPS growth (%)	65.89	18.03	(2.37)	51.18	5.10	15.96
PER (x)**	28.51	24.16	24.74	16.37	15.57	13.43
BVPS (THB)	3.29	3.08	3.02	5.38	6.24	7.24
P/BV (x)**	5.65	6.04	6.16	3.45	2.98	2.57
Price/EV (x)**	NA	1.56	1.38	1.25	1.10	0.96
Price/implied VNB (x)**	NA	7.00	4.13	2.86	1.08	(0.37)
Dividend yield (%)**	1.08	1.34	6.72	2.14	2.25	2.61
ROE (%)	19.81	25.00	24.65	26.37	20.55	20.55
ROA (%)	1.78	1.73	1.57	2.14	1.97	1.89

Note* EPS weighted (diluted 1,200mn shares) ** Fair price 2009F THB18.60, assuming IPO price of THB13/share

Stock Rating

U.R.

Previous	N.A.
Fair Price (09F)	**THB18.60**
Market Price	**N.A.**

Published Date

20 August 2009

Sector

Insurance

U.R.

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Key Data

Shares in Issue (mn)	1,220.0
Market Cap. (THBmn)	n.a.
12-mth High/Low (THB)	n.a.
3-mo.AvgDaily T/O (THBmn)	n.a.
Foreign Limit/Actual (%)	25/25
Free Float (%)	n.a.
NVDR (%)	n.a.
Dividend Policy (%)	>25
Par Value (THB)	1.0

Major Shareholders (%) (Post IPO)

1. Sophonpanich Group	32.2
2. NISSAY	20.8
3. BBL	7.7

IPO Information

IPO Shares (mn)	200
Financial Advisor	Capital Nomura Sec.
Lead Underwriter	Capital Nomura Sec.
Subscription Period	N.A.
Listing Date	N.A.
Silent Period	1 year

Capital Nomura Securities Public Co., Ltd. is a financial advisor and underwriter for an initial public offering of Bangkok Life Assurance. Investors should study the prospectus before making a decision.

Industry outlook

Bright outlook for the life insurance industry in Thailand

We believe that there is still plenty of room for the life insurance industry in Thailand to achieve high growth owing to the following factors:

1. Thailand's life insurance market is relatively underdeveloped. For example, the value of the country's outstanding life insurance premiums per GDP is very low (at 2.04%) when compared with most other countries in Asia (see Exhibit 1). This in turn explains why the value of life insurance policies outstanding in Thailand during 1997-2007 was able to show 13% CAGR (see Exhibit 2), which was 4x higher than the country's GDP growth rate for the same period.

The value of the Thailand's outstanding life insurance premiums per GDP is very low (at 2.04%) when compared with most other Asian countries.

Exhibit 1: Value of outstanding life insurance written as percentage of GDP

Source: Swiss Re, Nomura HK, as of 2007 Only China and Thailand are as of 2008

The value of outstanding life insurance premiums in Thailand showed 13% CAGR during 1997-2007.

Exhibit 2: Value of outstanding life insurance policies in Thailand

Source: The Thai Life Assurance Association, CNS

2. The Thai government continues to actively encourage the country's citizens to buy life insurance by increasing the amount of life insurance premiums paid that can be deducted from personal income tax. In 2002, the government increased the size of this tax deduction five-fold to THB50,000 per year. This helped to raise the percentage of the Thai population with life insurance coverage to 19.23% from just 12.56% in 2000 (see Exhibit 3). In 2008, the Thai government raised this ceiling again to THB100,000 per year that has helped to boost the sale of life insurance policies for both BLA and the industry as a whole. In addition, this measure should increase the value of outstanding life insurance policies as a percentage of GDP that has been on the decline since 2005 (see Exhibit 4).

Exhibit 3: No. of life insurance policies per population in Thailand

Source: The Thai Life Assurance Association and Bank of Thailand

Exhibit 4: Penetration rate of life insurance in Thailand

Source: The Thai Life Assurance Association and Bank of Thailand

BLA can take an advantage of financial crisis in the US that has shaken customers' confidence in BLA's foreign rivals that have operations in Thailand to increase its market share.

Sales of life insurance policies sold via banks (i.e. bancassurance channels) are likely to remain on the increase. Commercial banks in Thailand were granted licenses by the government to sell life insurance back in 2004. Last year the percentage of BLA's first year premium (FYP) income that came from life insurance policies sold through BBL's bancassurance network grew by 63.55% y-y to THB2,670.82mn to equal 51% of its total premium income.

We expect bancassurance to be a key growth driver for the company's earnings growth in the future. In addition, BLA is likely to enjoy a competitive advantage over its local peers owing to BBL's network of more than 800 branches nationwide. Meanwhile, the recent financial crisis in the US has shaken customers' confidence in BLA's foreign competitors that have operations in Thailand. Note that BBL has the second largest bank branch network in Thailand after Siam Commmercial Bank Pcl (SCB). Hence, BLA can take advantage of this opportunity to increase market share via both the bancassurance channel and its own sales agents. In addition, as BLA has been in the life insurance business for more than 50 years, its life insurance products have become widely accepted and trusted by both its existing and potential customers.

Company profile

Bangkok Life Assurance (BLA) sells two types of life insurance to its customers – ordinary life insurance and group life insurance. Ordinary life insurance consists of whole life insurance, term life insurance, endowment insurance and rider coverage (see Exhibits 5 and 6). BLA's revenue from its ordinary life insurance business accounts for 80% of its total premium income, including both its FYP income and its Renewal Year Premium (RYP) income. In addition, its ordinary life insurance business earns a higher gross margin than what it earns from its group life insurance business.

Exhibit 5: Breakdown of BLA's FYP income in 2Q09

Source: BLA, CNS

Exhibit 6: Breakdown of BLA's (RYP) income in 2Q09

Source: BLA, CNS

Currently, individual agents are the main sales and distribution channel for BLA's life insurance products. As of end-2008, the company had 12,000 sales agents who generated 62% of the company's total revenue in that year (see Exhibit 7). Meanwhile, 33% of its total revenue came from life insurance products sold through BBL's bancassurance channel, vs. 24% in 2007. Sales growth via this latter channel has been explosive. For example, last year FYP income via this channel jumped by 63.55% y-y, while its RYP income surged by 73% y-y (see Exhibit 8). Overall, BLA's premium income via BBL's bancassurance channel achieved CAGR of 60% in 2005-08 that went on to increase by 68% in 2008.

Exhibit 7: Breakdown of BLA's total revenue by sales channel in 2008

Source: BLA, CNS

Exhibit 8: Breakdown of BLA's total revenue by category and sales channel in 2008

	First Year Premium (FYP) THBmn	Growth % y-y	Renewal Year Premium (RYP) THBmn	Growth % y-y
Agent	1,383.17	2.38	7,898.94	16.71
Bancassurance	2,670.82	63.55	2,304.39	73.00
Others	131.92	-48.87	618.15	-46.43
Total	4,185.91	29.12	10,821.5	16.94

Bancassurance sold via Bangkok Bank's branch network will continue to be a key growth driver for BLA in the future.

Source: BLA, CNS

Exhibit 9: Breakdown of BLA's total revenue by sales channel in 2008

Source: BLA, CNS

Exhibit 10: Breakdown of BLA's total revenue by sales channel in 2Q09

Source: BLA, CNS

BLA's shareholder structure post-IPO

The BBL group and NISSAY can be counted on to support BLA post-IPO

After BLA is listed in the Stock Exchange of Thailand (SET) the BBL group will continue to be the company's main shareholder with a stake of over 40%. Hence, we are confident that BLA will still enjoy a competitive advantage over its peers by being able to distribute its life insurance products via BBL's extensive branch network. After its IPO we also believe that BLA will be able to continue to rely on the support of NISSAY, which is Japan's second largest life insurance company. Note NISSAY's stake in BLA is likely to remain substantial at 21% post-IPO (see Exhibit 12) versus its current stake of 26%. Thus, all indications are that BLA will be able to continue to relay on both the BBL group and NISSAY for financial support. Moreover, we expect this financial support to give BLA a competitive edge when compared with its local peers in the life insurance industry.

According to the terms of BLA's capital increase of 220mn shares, 200mn shares will be allocated to investors and another 20mn shares allocated for ESOP. The company's paid up capital should increase to THB1,200mn (par THB1.0) post-IPO.

Exhibit 11: BLA's shareholder structure (pre-IPO)

Source: BLA, CNS

Exhibit 12: BLA's shareholder structure (post-IPO)

Source: BLA, CNS

Valuation methodology

Based on the appraisal value method we estimate BLA's 2009F fair price at THB18.60/share.

Appraisal value (2009F)	THB
VIF valuation/share	9.87
NAV valuation/share	5.06
Embedded value/share	14.93
VNB valuation (per share)	2.90
Fair price (per share)	18.60

Source: BLA, CNS *Assumes IPO price of THB13/share

Assumption and valuation sensitivity 2009F

VIF Inv yield / discount rate	10.0%	10.5%	11.0%	11.5%	12.0%
-50bp (4.50%)	11,857	11,718	11,583	11,450	11,322
-50bp (5.00%)	11,985	11,846	11,711	11,578	11,450
Base case (5.50%)	12,118	11,978	11,843	11,711	11,583
+50bp (6.00%)	12,253	12,113	11,978	11,846	11,718
+50bp (6.50%)	12,390	12,251	12,116	11,983	11,855

VNB Inv yield / discount rate	10.0%	10.5%	11.0%	11.5%	12.0%
-50bp (4.50%)	1,537	1,488	1,440	1,389	1,339
-50bp (5.00%)	1,587	1,538	1,490	1,439	1,389
Base case (5.50%)	1,638	1,589	1,541	1,490	1,440
+50bp (6.00%)	1,686	1,637	1,589	1,538	1,488
+50bp (6.50%)	1,736	1,687	1,639	1,588	1,538

Fair value sensitivity Inv yield / discount rate	10.0%	10.5%	11.0%	11.5%	12.0%
-50bp (4.50%)	18.6	18.4	18.1	17.9	17.7
-50bp (5.00%)	18.8	18.6	18.4	18.1	17.9
Base case (5.50%)	**19.1**	**18.8**	**18.6**	**18.4**	**18.1**
+50bp (6.00%)	19.3	19.1	18.8	18.6	18.4
+50bp (6.50%)	19.5	19.3	19.1	18.8	18.6

Inv yield / new business multiple (x)	1	2	3	4	5
-50bp (4.50%)	15.9	17.1	18.3	19.5	20.7
-50bp (5.00%)	16.1	17.3	18.5	19.8	21.0
Base case (5.50%)	**16.2**	**17.5**	**18.8**	**20.1**	**21.4**
+50bp (6.00%)	16.4	17.7	19.0	20.3	21.7
+50bp (6.50%)	16.5	17.9	19.3	20.6	22.0

Source: BLA, CNS

Exhibit 13: Explanation of appraisal value method for life insurance companies

	Key measures	Definition	Key drivers
(a)	Net assets	This captures the net shareholders' funds in the life insurance business.	Change in capital structure and asset revaluation (unrealized gains and losses booked and retained earnings).
(b)	Value of in-force (VIF)	This is the net present value (NPV) of the expected profit from each policy currently in-force based on actuarial projections of the likely cash flow pattern for each policy.	Underlying actuarial assumptions with regard to mortality rates, investment returns and the discount rate used.
(a)+(b)	Embedded value	In effect, this is the fair value of the company on a closed book basis, i.e. assuming that there will be no future new businesses (life insurance policies) written.	
(c)	Value of new business (VNB)	This is the net present value of the expected profit from the policies written in the latest period (usually one year).	This is the net present value of the expected profit from the policies written in the latest period (usually one year).
(d)	Multiple of VNB	This is similar to a P/E multiple for industrial companies; essentially this captures the value of all future new businesses.	
(a)+(b)+(c)	Appraisal value	This is the theoretical fair value of a life insurance company based on actuarial projections of expected future new businesses.	

Source: Nomura HK, CNS

Life insurance companies operating in countries with a high penetration rate (i.e. Europe and the United States) tend to have lower P/E and P/BV valuations, which implies that their business is already quite mature. By contrast, life insurance companies in emerging markets like China tend to have higher P/E and P/BV valuations. This suggests that their operations still have high growth potential when compared with their peers in Europe and the United States.

BLA's P/E valuations for 2009-10F are inexpensive when compared to the valuations for its peers in emerging markets. This is particularly true when BLA's valuations are compared to the valuations for its listed peers in China, as summarized below:

1. BLA's P/Es for 2009-10F of 16.37x and 15.57x, respectively, are lower than the average 2009-10F P/E of listed life insurance companies in China (at 29.7x and 24.35x, respectively) (see Exhibit 14).
2. BLA's P/BVs for 2009-10F of 3.45x and 2.98x, respectively, are lower than the average P/BV of listed insurers in China at 4.28x and 3.85x, respectively (see Exhibit 14).
3. BLA's ROE for 2009-10F of 26.37% and 20.55%, respectively, are much higher than the average 2009-10F ROE for listed life insurance companies China at 15.41% and 14.87%, respectively (see Exhibit 14).
4. On a P/EV and P/implied EV basis, BLA is also more attractive than its peers in China. In 2009-10F, BLA's business is likely to generate higher premiums from the sale of new life insurance policies and business expansion than the operations of listed life insurance companies in China (see Exhibit 15).

Exhibit14: BLA's valuations vs. international peers

	BB code	Local price	P/E (x) 2009F	P/E (x) 2010F	P/BV (X) 2009F	P/BV (X) 2010F	ROE (%) 2009F	ROE (%) 2010F
Thailand								
BLA	**BLA TB**	**18.60**	**16.37**	**15.57**	**3.45**	**2.98**	**26.37**	**20.55**
China (including HK)	**Average**		**29.07**	**24.38**	**4.28**	**3.85**	**15.41**	**14.87**
China Life	2628 HK	32.35	27.09	22.98	4.17	3.67	15.25	15.21
Ping An	2318 HK	61.55	31.04	25.77	4.39	4.03	14.09	14.01
CIIH	0966 HK	N/A	N/A	N/A	N/A	N/A	16.89	15.39
Taiwan	**Average**		**25.84**	**20.68**	**1.84**	**1.67**	**6.78**	**7.79**
Shin Kong	2888 TT	11.25	18.84	17.23	1.15	1.05	6.02	6.49
Cathay FH	2882 TT	47.70	32.83	24.13	2.54	2.30	7.54	9.09
Australia	**Average**		**14.82**	**13.61**	**2.84**	**2.65**	**19.24**	**19.37**
AMP	AMP AU	5.82	16.77	15.40	5.22	4.81	32.30	32.39
AXA APH	AXA AU	4.27	15.81	14.83	1.99	1.89	14.10	14.19
Tower	TAL AU	2.47	11.88	10.60	1.32	1.25	11.31	11.54
UK	**Average**		**8.48**	**6.90**	**1.09**	**1.00**	**8.57**	**11.05**
Aviva	AV/LN	381.80	7.22	6.19	1.01	0.81	11.54	15.24
Friends Provident	FP/LN	76.05	13.31	8.66	0.60	0.63	3.96	5.77
Legal & General	LGEN/LN	68.50	6.67	5.80	1.13	1.01	8.57	12.51
Old Mutual	OML/LN	87.10	6.82	6.47	0.74	0.64	8.41	7.53
Prudential	PRU/LN	497.40	8.39	7.40	1.96	1.91	10.36	14.20
Europe	**Average**		**13.63**	**7.58**	**0.72**	**0.66**	**5.85**	**10.48**
AXA SA	CS FP	15.33	9.66	7.53	0.82	0.76	7.74	11.72
ING	INGA NA	9.25	19.59	6.87	0.77	0.68	5.15	12.55
Swiss Life	SLHN VX	115.00	11.63	8.35	0.56	0.53	4.66	7.18
Americas	**Average**		**11.38**	**7.11**	**1.07**	**0.95**	**10.47**	**14.25**
AIG	AIG US	23.42	N/A	3.52	0.06	0.05	2.47	14.17
AFLAC	AFL US	39.68	8.40	7.71	2.33	1.94	27.84	25.65
Lincoln National	LNC US	22.22	7.28	6.48	0.66	0.63	8.40	9.45
MetLife	MET US	34.40	12.49	8.56	1.08	0.99	6.26	9.30
Manulife	MFC CN	21.57	17.34	9.28	1.25	1.15	7.36	12.69
Nationwide Financial	NFS US	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Nomura HK, Bloomberg, CNS (as of 17 Aug 09)

Exhibit 15: P/EV and P/Implied VNB for BLA vs. listed life insurance companies in China

		Closing price (local currency)	2009F	2010F
China Tai Ping Insurance	P/EV	20.15	4.1	2.8
	P/Implied VNB		17.9	11.6
Ping An Insurance group	P/EV	64.5	3.7	2.9
	P/Implied VNB		22.1	16.9
China Life	P/EV	33.45	2.7	2.3
	P/Implied VNB		29.5	22.6
BLA	P/EV	18.60	1.2	1.1
	P/Implied VNB		14.5	11.8

Source: Nomura, BLA,CNS

Prospects for BLA's operations

BLA's core revenue is composed of net premium income and investment income, which account for 80% and 10%, respectively, of the company's total revenue. Note that BLA's share of the life insurance industry's total premium income remained on an uptrend in 2007-1Q09 and the company was ranked fourth in the industry (see Exhibit 18). Moreover, for 1998-2008 the company reported 24% CAGR in its total premium income, which was much faster than the industry's corresponding CAGR of 13% over the same period (see Exhibits 16 and 17).

Exhibit 16: BLA's total premium growth

Source: The Thai Life Assurance Association, BLA,CNS

Exhibit 17: Industry premium growth

Source: The Thai Life Assurance Association

AIA's market share has fallen sharply since 2007 as a result of the financial crisis in the US, while BLA's market share has increases since 2007.

Exhibit 18: Changes in market shares held by leading life insurance companies in Thailand

Source: The Thai Life Assurance Association, BLA

Apart from having achieved a higher rate of premium income growth that the Thai life insurance industry as a whole, BLA's persistency rate (i.e. the percentage of its policies that stay in-force until the end of the policy term) during 2004 – 1Q09 was higher than the average for the Thai life insurance industry as a whole and also better than what has been reported by some of the leading international life insurers listed in Hong Kong, Taiwan and China (see Exhibit 19).

Based on the above, our forecasts call for BLA to deliver growth in total premium income of at least 20% for both 2009F and 2010F to THB18,000mn and THB22,000mn, respectively (see Exhibit 20).

Exhibit 19: Persistency rate comparison

Source: The Thai Life Assurance Association, BLA, CNS

Exhibit 20: BLA's total premium CAGR growth

We expect BLA's total premium income to expand by around 20% in both 2009Fand 2010F.

Source: The Thai Life Assurance Association, BLA, CNS

Meanwhile, at end-2007 BLA's investment portfolio (i.e. its assets under management) was valued at around THB44,346mn, or double what it was at end-2004. Between 2004 and 2007, the value of its investment portfolio showed CAGR of 21%. Over the next five years we expect the value of its investment portfolio to increase to more than THB100,000mn (see Exhibit 22.)

Exhibit 21: Value of BLA's investment portfolio vs. domestic peers as of end-2007

Source: The Thai Life Assurance Association, BLA,CNS (the investment asset value is higher here than what was reported in BLA's financial statements)

Exhibit 22: Projected value of BLA's investment portfolio by end-2012F

Source: The Thai Life Assurance Association, BLA, CNS

Moreover, BLA's average return on investment (ROI) during 2000-2009F is likely to be 6.71%, which would be better than the projected average for the industry. This should be due to its large exposure to long-term bonds and debentures (see Exhibits 23 and 24) that tend to be less volatile. Under this investment policy, the company can generate high returns on its investments (see Exhibit 25). By comparison, many of the company's peers have investment portfolios that contain a larger proportion of high-risk assets.

Therefore, we believe that BLA's current ROI should be sustainable and that this will help support the company's net profit growth, as well as minimize economic risk and volatility in the value of its investments. Also, this should allow the company to have more control over its gross profit margin when compared with its peers

BLA's investment portfolio is weighted in favor of long-term securities that offer a sustainable return.

Exhibit 23: Comparison of investment portfolio structures for Thai life insurance companies

Source: The Thai Life Assurance Association, CNS

* data as of end-1Q09 for industry and BLA only; all other data as of end-2007

Exhibit 24: Composition of BLA's investment portfolio as of end-1Q09

Source: BLA, CNS

BLA's ROI has been less volatile than the industry average and was not seriously impacted by sharp correction in the SET in 2008.

Exhibit 25: Adjusted return on investment (ROI) comparison

Source: The Thai Life Assurance Association, BLA, CNS

In summary, we have a positive outlook towards BLA's ability to sustain its revenue growth, which should be supported by expansion of its premium and net investment income (see Exhibit 26). Moreover, the company's expanded asset base should deliver an investment return of more than 5% over the medium term (see Exhibit 27) as measured by the projected growth in its net investment income.

Exhibit 26: First year premium income

Source: BLA, CNS

Exhibit 27: Net investment income

Source: BLA, CNS

Risks to our earnings forecasts and valuation

Although there are some risks to our earnings forecasts and valuation for BLA they are not significant in our view.

1. Redemption of life insurance policies by its customers before they reach the breakeven point. This risk includes the redemption of life insurance policies due to factors beyond the company's control, such as death, natural disasters, etc. However, we believe that this risk is low given BLA's diversified product mix (i.e. in terms of conditions, maturities, etc.), along with its efforts to carefully screen its customers for health and financial risks that might affect their ability to pay their premiums on schedule. Meanwhile, the company can also reduce risk by purchasing reinsurance policies. It should be easy for BLA to find some foreign partners to cooperate with it on reinsurance owing to its strong financial position, strong creditability and excellent operating record.
2. Changes in regulations for calculating capital. This risk should also be limited as well because BLA's solvency ratios for 2009-10F are estimated at 12.6% and 12%, respectively, which would both be well above the minimum solvency ratio of 2% that is required by Thailand's Office of the Insurance Commission (OIC). In addition, BLA also receives financial support from its major shareholders, including BBL and NISSAY.

Exhibit 28: Ordinary life insurance policy claims caused by death - BLA

Source: The Thai Life Assurance Association

Exhibit 29: Ordinary life insurance policy claims caused by death –insurance industry average

Source: The Thai Life Assurance Association

3. Financial risks, including to volatile equity markets. We believe that the impact of the volatile performance of financial markets, including the SET, on BLA earnings and valuation should be limited due to its low exposure to equities as part of its investment portfolio. Also, the impact of volatility in share prices on the SET on BLA's fair value should be limited given that our fair value estimate is based on the appraisal value method. Moreover, when compared with the share price performance of life insurance companies in China that tend to be highly correlated with the trend in local stock markets, including the SHCOMP (see Exhibit 30), BLA's share price performance is unlikely to be significantly affected by the volatility in the SET given that less than 7% of its investment portfolio consisted of equities (as of end-1Q09; see Exhibits 23 and 24). By contrast, life insurance companies in China have a much higher exposure in their investment portfolios to direct equity and mutual funds (see Exhibit 31). Finally, BLA can reduce such risks by further diversifying its investment portfolio as appropriate.

Exhibit 30: Listed life insurance companies in China and their exposure to the SHCOMP

Source: CIRC, Nomura HK

Exhibit 31: Breakdown of investment portfolios at life insurance companies in China

%	As of March 08
Bank deposits	26
Bonds	49.4
Direct equity	13.1
Mutual funds	8.3
Others	3.2
Total	100

Source: CIRC, Nomura HK

Profit and Loss (THBmn)						
Year-end 31 Dec	**2006**	**2007**	**2008**	**2009F**	**2010F**	**2011F**
Net insurance premium revenue	**10,434**	**12,296**	**14,732**	**18,167**	**22,091**	**26,950**
Less Life policy reserve (Provision)	5,251	6,230	7,670	9,360	11,179	13,636
Revenue realization on premium	**5,183**	**6,066**	**7,062**	**8,808**	**10,913**	**13,314**
Benefits payment to life policies	3,600	4,278	4,926	6,092	7,799	9,678
Commissions and brokerages	1,601	1,787	1,985	2,671	3,248	3,962
Total underwriting expenses	**5,345**	**6,254**	**7,173**	**9,023**	**11,363**	**14,025**
Net investment income	1,706	1,985	2,430	2,897	3,631	4,472
Gain (loss) on investments in securities	20	131	(359)	196	154	192
Operating profit	**1,585**	**1,943**	**1,986**	**2,877**	**3,335**	**3,953**
SG&A	718	883	958	1,153	1,424	1,737
Pre-tax profit (loss)	**868**	**1,061**	**1,028**	**1,724**	**1,911**	**2,216**
Income tax	215	291	277	474	478	554
After-tax profit (loss)	**652**	**770**	**752**	**1,250**	**1,433**	**1,662**
Other extraordinary Items	-	-	-	-	-	-
Gn (Ls) from affiliates	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
Net profit (loss)	**652**	**770**	**752**	**1,250**	**1,433**	**1,662**
Normalized net profit (loss)	**652**	**770**	**752**	**1,250**	**1,433**	**1,662**
Reported EPS (THB)	**0.65**	**0.77**	**0.75**	**1.14**	**1.19**	**1.39**

Balance Sheet (THBmn)						
As at 31 Dec	**2006**	**2007**	**2008F**	**2009F**	**2010F**	**2011F**
Cash and deposit	634	760	2,382	5,834	5,389	3,913
Bond	20,793	24,167	28,449	34,707	43,384	53,796
Notes	2,544	3,668	4,058	4,951	6,189	7,674
Stocks	2,824	3,516	3,594	4,385	5,481	6,796
Debentures	4,072	7,422	7,423	9,056	11,320	14,037
Unit trusts	2,457	1,237	1,334	1,628	2,035	2,523
Net loan	1,340	1,499	1,798	2,194	2,743	3,401
Total investment (Net)	34,030	41,508	46,657	56,921	71,151	88,228
Premises & equipment (Net)	276	261	325	308	293	278
Premium due and uncollected	959	1,042	1,121	1,382	1,681	2,050
Accrued income on investment and loans	480	624	743	907	1,134	1,406
Total asset	36,608	44,410	51,482	65,607	79,902	96,129
Life policy reserve	27,992	34,222	41,892	51,252	62,431	76,067
Unpaid benefit to life policy	2,626	3,311	3,984	4,927	6,308	7,827
Premium received in advance	1,843	1,699	1,551	1,473	1,621	1,540
Total liabilities	33,315	41,330	48,463	59,146	72,413	87,444
Paid-up capital	1,000	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	275	2,675	2,675	2,675
Retained earnings	755	236	950	1,693	2,625	3,705
Other adjustments	862	1,129	316	386	482	598
Total equity	3,293	3,080	3,019	6,461	7,489	8,685
Minority Interest	-	-	-	-	-	-
Total liabilities and equity	36,608	44,410	51,482	65,607	79,902	96,129

Source: CNS, BLA

Valuation and Ratio Analysis						
Year-end 31 Dec	**2006**	**2007**	**2008**	**2009F**	**2010F**	**2011F**
Per Share (THB)						
EPS	0.7	0.8	0.8	1.1	1.2	1.4
DPS	0.2	0.3	1.3	0.4	0.4	0.5
BVPS	3.3	3.1	3.0	5.4	6.2	7.2
Embed Value	NA	NA	NA	14.9	16.9	19.3
Multiplier (x)						
PER	28.5	24.2	24.7	16.4	15.6	13.4
P/BV	5.6	6.0	6.2	3.5	3.0	2.6
P/EV		1.6	1.4	1.2	1.1	1.0
Dividend yield (%)	1.1	1.3	6.7	2.1	2.2	2.6
Growth (%)						
Sales growth	12.9	17.8	19.8	23.3	21.6	22.0
Investment income growth	41.9	16.3	22.4	19.2	25.4	23.2
Operating profit growth	41.7	22.6	2.2	44.8	15.9	18.5
Net profit growth	65.9	18.0	-2.4	66.3	14.7	16.0
EPS growth	65.9	18.0	-2.4	51.2	5.1	16.0
Profitability Ratio (%)						
Net investment yield (%)	5.1	4.9	5.1	4.9	5.0	5.1
Gross investment yield (%)	15.2	15.8	13.5	15.8	15.1	14.7
Gross margin (%)	11.8	12.3	11.2	12.6	11.3	10.5
Net margin (%)	9.6	9.6	8.3	10.7	10.1	9.6
Cost/income (%)	45.3	45.4	48.2	40.1	42.7	43.9
ROE (%)	19.8	25.0	24.7	26.4	20.5	20.6
ROA (%)	1.8	1.7	1.6	2.1	2.0	1.9
Valuation (x)						
Value of In-force per share	NA	NA	NA	9.9	11.0	12.6
Net assets per share	2.4	2.0	2.7	5.1	5.8	6.7
Embedded value per share	NA	NA	NA	14.9	16.9	19.3
Value of new business per share	NA	NA	NA	1.3	1.6	1.9
Loss ratio (%)						
Loss ratio to premium	34.50	34.79	33.44	33.53	35.30	35.91
Total loss ratio	11.76	11.40	10.74	10.84	11.35	11.54
Financial policy ratios (x)						
Reserve/equity	11.8	9.0	7.2	12.6	12.0	11.4
D/E ratio	10.1	13.4	16.1	9.2	9.7	10.1
Reserve/asset	0.76	0.77	0.81	0.78	0.78	0.79
Persistency ratio (%)	87.4	86.7	86.7	86.7	86.7	86.7

Source: CNS, BLA, Assume price THB18.60

Profit & Loss Statement (THBmn)

Fiscal Year-Ended December	2Q08	1Q09	2Q09	% y-y	% q-q	1H08	1H09	% y-y	2009F	(%of 09F)
Net insurance premium revenue	3,624.51	4,722.27	4,700.76	29.69	(0.46)	6,569.72	9,423.03	19.39	18,167.37	51.87
Less Life policy reserve (Provision)	1,820.04	2,433.56	2,821.71	55.04	15.95	3,303.95	5,255.27	22.10	9,359.87	56.15
Revenue realization on premium	1,804.47	2,288.71	1,879.05	4.13	(17.90)	3,265.77	4,167.76	16.76	8,807.50	47.32
Benefits payment to life policies	1,110.75	1,200.67	1,362.52	22.67	13.48	2,193.95	2,563.19	8.71	6,092.00	42.07
Commissions and brokerages	537.26	670.75	602.56	12.15	(10.17)	970.47	1,273.31	18.79	2,670.90	47.67
Total underwriting expenses	1,735.06	1,998.66	2,031.58	17.09	1.65	3,298.40	4,030.24	13.12	9,022.76	44.67
Net investment income	598.76	635.36	688.23	14.94	8.32	1,168.54	1,323.59	10.27	2,896.71	45.69
Gain (loss) on investments in securities	(10.91)	125.49	40.79	(473.91)	(67.49)	12.79	166.28	(73.85)	195.62	85.00
Operating profit	658.33	1,057.45	572.45	(13.05)	(45.86)	1,152.88	1,629.90	15.86	2,877.07	56.65
Net profit (loss)	295.89	556.58	233.07	(21.23)	(58.13)	500.87	789.64	20.42	1,250.14	63.16
Reported EPS (THB)	0.30	0.56	0.23	(21.23)	(58.13)	0.50	0.79	20.42	1.14	69.48
Investment yield (%)	5.41	5.19	5.30			5.28	5.09		4.95	
Gross margin (%)	16.99	23.31	7.96			14.51	15.99		12.65	
Net margin (%)	12.01	16.63	9.51			11.34	13.62		10.70	
Cost/income (%)	37.31	26.87	46.46			40.51	33.75		40.07	
Loss ratio to premium (%)	30.65	25.43	28.99			33.39	27.20		33.53	
Reserve to equity (%)	8.26	7.35	8.22			8.26	8.22		12.61	
BV (THB)	3.10	3.26	3.87			3.10	3.87		5.38	
ROE (%)	38.19	68.38	24.07			32.32	40.77		26.37	

Source: CNS, BLA

Explanation of CNS rating system for Thailand companies under coverage published from 2 March 2009:

Stocks:
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price) / Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
• A "Buy" recommendation indicates that potential upside is 15% or more.
• A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
• A "Reduce" recommendation indicates that potential downside is 5% or more.

Explanation of CNS rating system for Thailand companies under coverage published prior to 28 February 2009:

Stocks:
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price) / Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
• A "Strong Buy" recommendation indicates that upside is more than 20%.
• A "Buy" recommendation indicates that upside is between 10% and 20%.
• A "Neutral" recommendation indicates that upside or downside is less than 10%.
• A "Reduce" recommendation indicates that downside is between 10% and 20%.
• A "Sell" recommendation indicates that downside is more than 20%.

Sectors: (No change)
A "Bullish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A "Neutral" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A "Bearish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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