TISCO Securities

Company Report

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Thailand / Insurance

Bangkok Life Assurance

IPO

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Initial Public Offering

Robust profit growth should continue

12-month target price
Bt15.2-22.2

Expect EPS growth of 85.7% in 2009 and 23% next year
We expect Bangkok Life Assurance (BLA) to enjoy healthy earnings over the next few years, with growth driven by more active bancassurance and its own agents. Its stronger capital base after its IPO will also serve as a cushion against the impact from forthcoming changes in capital requirements and accounting rules.

Strong upside potential from bancassurance
Bancassurance has been the key driver for BLA's earnings in 2009 and we believe there is still more upside from this selling channel. Its parent bank, BBL, is the largest Thai bank in terms of assets, deposit base, employees, and customers, which should encourage cross-selling activities. The under-penetration of insurance products in Thailand also means that the entire industry offers strong growth prospects.

Target value ranges between Bt15.20 and Bt22.20
Our target value for BLA from three valuation methodologies ranges from Bt15.20/share to Bt22.20, implying a 2010F PER of 9.1-12.9x. Another listed life assurance company in Thailand is currently trading on a forward PER of 10.5x while regional life assurance firms are trading at an average 2010F PER of 21.3x PER. The bright outlook for BLA should enable the stock to trade at close to 1x PEG.

Key risks
Our valuation is based on a market CoE of 12% and beta of 0.85x. A higher risk appetite may justify a lower CoE. For every 0.5% cut in CoE, the value of the company will rise by 10-18%. Downside risks for BLA are a lower return on investment, a thinner margin from intense competition and changes in accounting and capital requirement regulations.

SHARE SUMMARY

Stock data:	
Issued shares (Pre IPO)	1,000.0m
Issued shares (Post IPO)	1,200.0m
Par value:	Bt1.0
Foreign Limited	25.0%
Foreign Ownership (Pre IPO)	25.0%
Free Float	n.a.

Latest earnings results (2Q09)	**Bt, m**	**QoQ%**	**YoY%**
Net profit	233	(58.1)	(21.2)
EPS (Bt)	0.23	(58.1)	(21.2)

Major Shareholders (Pre -IPO)	
Sophonpanich Group	38.7%
Nippon Life	25.0%
Bangkok Bank	9.3%
Lim Song Group	8.5%
Bangkok Insurance	5.1%
Others	13.5%

Major Shareholders (Post -IPO)	
Sophonpanich Group	32.2%
Nippon Life	20.8%
Bangkok Bank	7.7%
Lim Song Group	7.0%
Bangkok Insurance	4.3%
Others	11.2%
IPO	16.7%

FINANCIAL SUMMARY

Year	2006	2007	2008	2009F	2010F	2011F
Net written premiums	10,434	12,296	14,732	19,261	22,381	26,092
NWP growth (%)	12.9	17.8	19.8	30.7	16.2	16.6
Net profit (Bt, m)	651	770	752	1,675	2,061	2,348
Net profit growth (%)	66.1	18.0	(2.4)	122.9	23.0	14.0
EPS (Bt)	0.65	0.77	0.75	1.40	1.72	1.96
EPS growth (%)	66.1	18.0	(2.4)	85.7	23.0	14.0
BV (Bt)	3.3	3.1	3.0	6.0	7.3	8.6
ROE (%)	21.8	24.2	24.7	32.7	25.8	24.6
Dividend (Bt)	0.25	1.00	0.32	0.55	0.70	0.80

Source: TISCO

Note: use average price for historical PER, PBV, yield

Disclaimer: TISCO Securities Company Limited is acting as an underwriter for an offering securities by Bangkok Life Assurance Public Company Limited. Investors should read the prospectus in detail before making any investment decision.

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Investment thesis

Outlook

BLA is one of Thailand's leading life insurance companies and has an impressive growth track record over the past few years, both in terms of written premiums and earnings. Its strong growth has been driven by both its own agents and its expanding bancassurance business with Bangkok Bank (BBL). Premiums generated through bancassurance are still quite low compared with the size of BBL's assets relative to other Thai banks. This should present upside for sustained robust growth in new premiums in the foreseeable future.

Earnings for 2009F should see an exceptional increase of 123% YoY due to strong growth momentum in new premiums. Meanwhile new premiums written this year will also feed into robust growth in earnings in 2010F as renewal premiums. Earnings growth for next year should stay strong at 23% YoY before falling to normal growth levels of 13-15% afterwards.

BLA's strong capital base (3.6x of minimum requirement in 2Q09) should serve as a cushion to forthcoming changes in capital requirement rules (from 2% of life policy reserve to risk-based capital, RBC). Proceeds from its IPO will also provide capital for business expansion.

Valuation

Our target value of BLA from three valuation methodologies ranges from Bt15.20/share to Bt22.20 (total number of shares is 1,200m). Note that It is normal for the dividend discount model (DDM) to yield a lower valuation than other models and the implied PER of 9.1x based on DDM value is very low versus the implied PER for the other two methods. Another life assurance company in Thailand is trading on a forward PER of 10.5x while regional life assurance firms are trading at a 2010F PER of 21.3x.

	TP (Bt)	Ratio (x)	CoE (%)	Notes	Regional average (2010F)
PBV	22.2	3.05	11.27	L-T avg ROE 20%; 8% growth	2.8x
PER	21.0	12.3	11.27	Payout ratio 40%; 8% growth	21.3x
DDM	15.2		11.27	Payout ratio 40%; 6% terminal growth	

Risks

Key risks for the company are **1)** reinvestment risks especially under the low interest rate environment; **2)** investment losses from its equity potion (capital loss or lower dividends), corporate debentures (default risks) and loans (default risks); **3)** industry competition leading to higher returns for new policy holders but a reduced profit margin for the company; **4)** competition for agents leading to higher commission expenses; **5)** competition from alternative investment products causing a slowdown in growth of new policies; **6)** regulatory risks from more stringent capital requirement and accounting standards.

Shareholders structure before and after IPO

Sources: Company data, TISCO Research

Robust growth prospects over next few years

Figure 1: BLA' market share in each category of premiums

- Strong growth from bancassurance pushed BLA's ranking up to 2nd place for first year premiums (FYP) after being in 6th place over past two years.
- BLA's key focus is still on the ordinary policy segment.
- Its ranking in group policy and single premium policy segment are 6th and 7th respectively with market share of just 5.5% for group FYP and 2.3% for single premiums.

Sources: Company data, TISCO Research

Figure 2: First-year premiums (FYP) market share in 5M09

- BLA ranked number two in FYP market share, excluding single premiums during 5M09.
- BLA has the highest proportion of certified agents for life insurance companies in Thailand. Coupled with more active selling through bancassurance channels, this helped the company achieve its high ranking in 5M09.

Sources: Company data, TISCO Research

Figure 3: BLA premium collection (persistency rate) vs. industry

- BLA's higher persistency rate than the industry will allow for strong growth in renewal premiums in the second year.
- This year should prove an exceptionally high growth period for BLA for new premiums. Persistency of those new customers would lead to stronger growth in total premiums for 2010F even though growth in new premiums may not be as high as this year.

Sources: Company data, TISCO Research

Figure 4: Distribution channels

- After extending its selling channels to bancassurance in 2005, this proportion has increased significantly.
- Its total ordinary premiums through bancassurance account for a market share of 15.62% in 1Q09 (rank #3), up from 12.31% in 2007.

Sources: Company data, TISCO Research

Figure 5: Total premiums generated through bancassurance vs. parent bank's asset size

- BLA's total premiums generated through bancassurance in 6M09 accounted for only 0.26% of BBL's asset size, which is lower than its peers such as SCB and KBANK.
- Premiums to banks' deposit base ratio (considering endowment products as an alternative investment to deposits) provide a similar picture as bank deposits normally account for 75-83% of their assets.

Sources: Company data, TISCO Research

Figure 6: Bank branches and employees (2008)

- With the larger customer base at BBL (12m-13mn deposit accounts), there is upside for BLA to generate more premiums via BBL.
- BBL's wide branch coverage and large number of employees should help in cross-selling insurance products. This offers upside potential for BLA's growth in new premiums from bancassurance.

Sources: Company data, TISCO Research

Financial highlights

Figure 7: Quarterly earnings – income statement

	1Q09	2Q09	2Q09 % YoY	1H09 % YoY
Net premiums written	4,722	4,701	30	43
Net investment income	635	688	15	13
Gains on investments in securities	125	41	n.a.	n.a.
Total revenue	**5,490**	**5,435**	29	41
Total underwriting expenses	4,432	4,853	37	41
Total operating expenses	286	266	8	19
EBT	**773**	**307**	(26)	57
Income tax	217	73	(37)	57
Net Profit	**556**	**233**	(21)	58
Premium growth (% YoY)	60.3	29.7		
Return on investment (%)	5.5	5.7		
Total return on investment (%)	6.6	6.0		
Gross margin (%)	19.3	10.7		
Policy reserve / Premiums (%)	51.5	60.0		
Underwriting expenses / Premiums (%)	93.9	103.2		
Operating expenses / Premiums (%)	6.1	5.7		
Total cost / Income (%)	86.0	94.2		
Effective tax rate (%)	28.0	24.0		
Net profit margin (%)	10.1	4.3		
ROE (%)	70.9	26.2		
ROA (%)	4.2	1.6		

Sources: Company data, TISCO Research

- BLA's net premiums rose 43% YoY in 1H09, driven largely by new premiums via bancassurance (+138% YoY).
- New premiums from bancassurance may slow down in 2H09F. This trend has been seen in other banks after aggressive campaigns for a certain period.
- After booking investment losses worth Bt359m in 2008, BLA realised gains of Bt125m in 1H09 (largely from bonds).
- Underwriting expenses in 2Q09 rose by 9.5% QoQ due partly to higher costs of policy reserve. This cost should return to normal levels in the following quarters.
- Large contribution from banassurance also led to slower increase in its operating expenses (+19% YoY in 1H09) than growth in written premiums (+43% YoY).

Figure 8: Quarterly earnings – balance sheet

	1Q09	2Q09	2Q09 % YTD	2Q09 % QoQ
Cash and deposits	3,657	3,748	57	2
Total investment in securities	47,135	50,131	12	6
Gross loans	1,828	1,851	3	1
Allowance for doubtful accounts	(3)	(3)		
Total asset	**55,021**	**58,425**	13	6
Life policy reserve	44,325	47,147	13	6
Unpaid policy benefits	4,106	4,333	9	6
Total liabilities	**51,765**	**54,551**	13	5
Unappropriated earnings	1,479	1,565	65	6
Total shareholder's equity	**3,256**	**3,874**	28	19
Bonds+Notes (% of portfolio)	74.7	73.2		
Debentures (% of portfolio)	15.6	15.4		
Stocks (% of portfolio)	7.2	7.5		
Unit trusts (% of portfolio)	2.5	3.9		
Loans (% of earning assets)	3.5	3.3		
Earning assets / Policy reserve (%)	118.7	118.2		
Total cost / Earning assets (%)	37.1	37.8		
Capital base (Bt,m)	2,741	3,414		
Capital base / Minimum requirement (x)	3.1	3.6		

Sources: Company data, TISCO Research

- Proportion of investment in fixed income was quite flat at about 90% of total investment portfolio. Proportion of corporate debenture fell slightly from two years ago due to more conservative stance in economic downturn.
- Cash portion rose to more than Bt3bn vs. less than Bt1bn in past two years as the company is still seeking higher-yield investments. The cash potion should fall back to about Bt1bn by year-end.
- Its capital base remained healthy at 3.1x of minimum requirement. After the IPO, its capital base should strengthen to 4-4.5x of minimum requirement.

Figure 9: BLA's FYP and renewal premiums

Sources: Company data, TISCO Research

- BLA's strong growth in FYP caused these to account for 44% of total premiums in 1Q09 (40% in 1H09) vs. a ratio of 24-28% over the past few years.

Figure 10: BLA's FYP and total premiums breakdown by products

- BLA's first-year premium (FYP) growth was exceptionally strong in 1H09, driven largely by endowment products via bancassurance.
- Endowment products normally provide higher margins than whole-life and group products.
- A jump in new endowment policies in 1Q09 caused underwriting expenses / premiums ratio to drop below 100%.

Sources: Company data, TISCO Research

Figure 11: Pro-forma – income statement

	2008	2009F	2010F	2011F
Net premiums written	14,732	19,261	22,381	26,092
Net investment income	2,430	2,913	3,738	4,607
Gains on investments in securities	(359)	230	50	50
Total revenue	16,829	22,430	26,197	30,781
Total underwriting expenses	14,843	18,948	22,066	26,117
Total operating expenses	965	1,181	1,309	1,447
EBT	1,028	2,295	2,823	3,217
Income tax	277	620	762	869
Net Profit	752	1,675	2,061	2,348
Premium growth (% YoY)	19.8	30.7	16.2	16.6
Net profit growth (%)	(2.4)	122.9	23.0	14.0
Return on investment (%)	5.7	5.5	5.6	5.6
Gross margin (%)	11.8	15.5	15.8	15.2
Total return on investment (%)	5.3	6.3	6.4	6.2
Policy reserve / Premiums (%)	52.1	54.7	53.2	53.7
Underwriting expenses / Premiums (%)	100.8	98.4	98.6	100.1
Operating expenses / Premiums (%)	6.6	6.1	5.8	5.5
Total cost / Income (%)	93.9	89.7	89.2	89.5
Effective tax rate (%)	26.9	27.0	27.0	27.0
Net profit margin (%)	4.5	7.5	7.9	7.6
ROE (%)	24.7	32.7	25.8	24.6
ROA (%)	1.6	2.8	2.8	2.6

- The growth in premiums for 2009F is driven largely by new premiums (+69% YoY vs. +16% YoY for renewal).
- Growth in premiums for 2010F could be driven mainly by renewal premiums. Banks' need to raise more deposits to support stronger loan growth is drying up liquidity in the system (higher loan to deposit ratio at banks) while rising interest rates could result in a slowdown in underwriting of new policies.
- We assumed a gradual rise in return on investment over the next few years. For each 0.1% increase in return on investment above our current estimate, the impact to net profit is 2.3%.

Sources: Company data, TISCO Research

Figure 12: BLA's return on investment portfolio vs. benchmark rates

- BLA's return on investment portfolio has been quite stable due to the long duration of its bond portfolio.
- Reinvestment is one of the major risks for an insurance company due to difficulties in finding decent returns in a low interest rate environment.
- Large swings in stock market can also cause capital gains/losses as seen in 2008.

Sources: Company data, TISCO Research

Figure 13: BLA's investment portfolio

- At end-1Q09, portion of bonds with maturity of more than five years accounted for 70.7% of BLA's total bond portfolio. This portion, however, fell from 76.7% at end-2008 and 80.2% at end-2007.
- A blend of government bonds (4% yield for 10-year maturity in August) could reduce its total return. An alternative is investment in lower rating corporate debentures, which are now offering 5-7% for 3-5 year maturity.

Sources: Company data, TISCO Research

Figure 14: Pro-forma – balance sheet

		2008	2009F	2010F	2011F
Cash and deposits		2,382	1,057	1,022	915
Total investment in securities		44,858	60,503	74,208	90,316
Gross loans		1,801	2,033	2,295	2,593
Allowance for doubtful accounts		(3)	(3)	(3)	(3)
Total asset		**51,482**	**67,265**	**81,832**	**98,812**
Life policy reserve		41,892	52,436	64,341	78,349
Unpaid policy benefits		3,984	4,981	6,112	7,443
Total liabilities		**48,463**	**60,026**	**73,092**	**88,463**
Unappropriated earnings		950	2,306	3,706	5,215
Total shareholder's equity		**3,019**	**7,239**	**8,740**	**10,348**
Bonds+Notes	(% of portfolio)	72.5	72.0	72.0	72.0
Debentures	(% of portfolio)	16.5	17.0	17.0	17.0
Stocks	(% of portfolio)	8.0	8.0	8.0	8.0
Unit trusts	(% of portfolio)	3.0	3.0	3.0	3.0
Loans	(% of earning assets)	3.7	3.2	3.0	2.8
Earning assets / Policy reserve (%)		117.1	121.3	120.5	119.8
Total cost / Earning assets (%)		34.6	35.7	33.1	32.2
Capital base (Bt,m)		2,800	5,791	6,992	8,278
Capital base / Minimum requirement (x)		3.3	5.5	5.4	5.3
Asset growth (%)		15.9	30.7	21.7	20.7

- We assumed a rather stable structure of its investment portfolio, which is in line with historical trend. Its fixed income investment proportion rose from 81% in 2005 to 89% in 2Q09.
- Upside to investment returns can come from a shift to corporate debentures, which should offer lower risks when the economy moves out of recession.
- Assumed stable consistency rate of around 90% should allow steady growth in assets of about 20% per annum.
- Its capital base should strengthen to more than 5x of minimum requirement after the capital raising.

Sources: Company data, TISCO Research

Figure 15: BLA's earnings assets

- The relatively stable composition of BLA's earning assets reduces fluctuations in its returns compared with some of its peers.
- Based on available data up to 2007, BLA's return on investment portfolio was in line with the industry average.

Sources: Company data, TISCO Research

Valuation

Target valuation range is Bt15.20-22.2

Figure 16: 2010F target value using P/BV valuation (ROE-g / CoE-g). Target value Bt22.10

Target Value	g=8%	ROE (%)			
		17	18	19	20
CoE (%)	11.8	17.3	19.3	21.2	23.1
	11.3	20.0	22.2	24.4	26.7
	10.8	23.6	26.2	28.9	31.5

Target Value	g=6%	ROE (%)			
		17	18	19	20
CoE (%)	11.8	13.8	15.1	16.4	17.6
	11.3	15.2	16.5	17.9	19.3
	10.8	16.7	18.3	19.8	21.3

- The P/BV valuation method is unlikely to sustain a short-term, high RoE of around 30%. Instead we assumed a longer-term (10 years) average RoE of 18% with sustained BV growth of 8% to derive a target P/BV of 3.05x. Note this is higher than the terminal growth assumption used for the DDM method to capture higher growth in the short term.
- We also assumed a beta of 0.85x, the adjusted beta of SCB New York Life (SCNYL). The market CoE used is 12%.
- At Bt22, the implied PER is 12.9x.

Sources: Company data, TISCO Research

Figure 17: 2010F target value using PER valuation (payout / CoE-g). Target value Bt21.0

Target PER	g=8%	Payout (%)			
		38	40	42	44
CoE (%)	11.8	10.1	10.6	11.2	11.7
	11.3	11.6	12.3	12.9	13.5
	10.8	13.7	14.5	15.2	15.9
Target Value					
CoE (%)	11.8	17.3	18.2	19.2	20.1
	11.3	20.0	21.0	22.1	23.1
	10.8	23.6	24.8	26.1	27.3

- Assuming a sustained dividend pay-out ratio of 40% and sustained growth of 8%, the implied target PER rating is 12.3x.
- However, short-term net profit growth may be higher at 15-20% over the next few years, which may lead to more willingness among investors to invest at higher PERs.

Sources: Company data, TISCO Research

Figure 18: PER of regional life insurance companies (2010F)

- The market PERs for China and Taiwan in 2010F (15x and 18x, respectively) exceed that of the Thai market (11.5x). It is therefore justifiable for BLA to trade at lower than the regional average PER.
- The implied PER for the two valuation methods above suggest a PER discount of 35-40% to the regional average PER for life insurance companies. This discount is higher than the PER discount for Thailand of 25-35%.
- This can be justified partly by higher liquidity ($90m daily turnover for large cap insurance firms).

Sources: Company data, TISCO Research

Figure 19: P/BV of regional life insurance companies (2010F)

- Our target P/BV rating is higher than the regional average due to a higher RoE assumption.
- Prospective RoE for regional insurance companies are on an uptrend due to expected stronger earnings growth in future.
- Although BLA's profit is still growing at double-digit levels, the high RoE of 30% is unlikely to be sustained. Therefore the P/BV valuation for BLA should not be based on short-term exceptionally high RoE.

Sources: Company data, TISCO Research

Figure 20: PER and P/BV of SCB New York Life

- SCNYL (another life assurance company listed on the SET) has traded in the 9-20x PER range in recent years (6-18x on a forward PER basis).
- The P/BV range was 3-8x with RoE of 46-55% during 2005-08.

Sources: Company data, TISCO Research

Figure 21: 2010F target prices using dividend discount model. Target value Bt15.20

Terminal g (%)	6
Beta	0.85
CoE (%)	11.3
Avg payout (%)	40

Implied PER
8.8x

CoE (%)	g (%) 5	6	7	8
11.8	12.6	13.9	15.7	18.4
11.3	13.6	15.2	17.5	21.2
10.8	14.8	16.8	19.8	24.9

- We assumed an average annual pay-out ratio of 40% over the next 10 years.
- If the pay-out ratio were to rise to 45% during the period, the target share value would rise to Bt16 (or 12% above current base-case target value).

Sources: Company data, TISCO Research

Risks

Key risks for the company are: **1)** reinvestment risks especially in a low interest rate environment; **2)** investment losses from the equity potion of its portfolio (capital loss or lower dividends), on corporate debentures (default risks), or on loans (default risks); **3)** competition that results in higher returns for new policy holders but reduced profit margins for the company; **4)** competition for agents leading to higher commission expenses; **5)** competition from alternative investment products causing a slowdown in growth of new policies; and **6)** regulatory risks from more stringent capital requirements and accounting standards.

Industry outlook

Figure 22: Bancassurance is becoming an important distribution channel

- The Thai insurance industry's premium receipts have increased every year since 1999 with a compound annual growth rate of 13.2%.
- The shift from using agents as sellers to distributing products through commercial banks a.k.a. bancassurance, has allowed insurance companies to access a broader customer base.
- Demand for insurance is growing as income levels rise and people see the necessity of having coverage for their property etc.
- The need for more specialized insurance consultancy could open new ways to service clients and generate income for the industry.

Sources: Thai Life Assurance Association (TLAA), TISCO Research

Figure 23: Fixed income securities dominate firms' investment portfolios

- Industry risk can arise from competition between Insurance companies and selection of appropriate policy terms and conditions.
- Restrictions on tax deductions for insurance policies have made insurers delay the launch and advertising of products that may be affected by tax measures.
- The insurance industry also faces interest rate risk as investment portfolios are overwhelmingly dominated by fixed income securities.

Sources: TLAA, TISCO Research

Figure 24: Very low penetration rate implies more upside for insurance industry

- Government approval of an increase in premium allowance to Bt100,000 baht per year could entice more people to buy insurance policies.
- Also the government's fiscal stimulus packages intended to help stimulate consumers' purchasing power could lead to the same result.
- Thailand still has a low coverage ratio (22.4% of the population hold life insurance) with a very low penetration rate (total premium income represents just 2.4% of GDP). This implies that good potential exists for the life insurance industry to grow significantly in future.

Sources: NESDB, TLAA, TISCO Research

Figure 25: Penetration rate and per capita GDP (2007)

Sources: Swiss-re, Deutsche Bank

Figure 26: Confidence in insurance industry was hit hard by AIG collapse

- The collapse of AIG in 2008 due to a liquidity crisis shook public confidence in the life insurance industry and led to a lot of policy redemptions by individuals.
- As concerns about global finance subsided, the industry has seen a pick up in demand.
- The main threat to the industry is a prolonged period of low economic growth as this would reduce household disposable income i.e. the amount of money available for spending and saving after deducting income taxes.
- Other major risks include domestic political instability which can damage consumer confidence and other unforeseen factors that can affect spending.

Sources: NESDB, CEIC, TLAA, TISCO Research

Figure 27: Relationship between total received premium and explanatory variables

- To forecast the insurance industry's premium trend we focused on total premium receipts. Explanatory variables in the model include the population figure, private consumption expenditure (PCE), the unemployment rate, and policy rate.
- We choose the PCE to represent consumer disposable income as the two variables have exhibited a very strong relationship in the past.
- Total received premium has a strong positive correlation with the population and private consumption level.
- A strong negative correlation can be seen between total premium receipts and the unemployment rate.

Sources: NESDB, BOT, CEIC, TLAA, TISCO Research

Figure 28: Model assumptions

Conservative						
(%)	2009	2010	2011	2012	2013	2014
Population growth	0.7	0.7	0.7	0.7	0.7	0.7
Nominal PCE growth	-1.8	3.7	4.2	6.6	7.5	7.4
Unemployment rate (avg)	1.9	2.2	2.3	2.1	1.9	1.8
Policy rate (avg)	1.3	1.4	2.2	2.9	3.7	4.4
Real GDP growth	-4.8	1.0	2.4	3.7	4.0	3.8

Optimistic						
(%)	2009	2010	2011	2012	2013	2014
Population growth	0.8	0.8	0.8	0.8	0.8	0.8
Nominal PCE growth	-0.8	5.8	5.7	8.1	9.1	9.0
Unemployment rate (avg)	1.5	1.4	1.4	1.1	0.8	0.5
Policy rate (avg)	1.3	1.4	1.9	2.4	2.9	3.4
Real GDP growth	-3.8	3.0	3.2	4.4	4.8	4.6

- We divide our analysis into two scenarios: 1) conservative case; and 2) optimistic case.
- For the conservative case our assumptions include a constant growth rate of 0.7% p.a. for the population. For the unemployment rate, we used the inverse of Okun coefficient to derive elasticity of change in unemployment rate with respect to GDP growth.
- For the optimistic case we used the consensus estimates of real GDP and PCE growth during 2009-10, then added 0.75% to our forecast of real GDP growth and 1.5% to our prediction for real PCE growth from 2011 onwards. We also raised our population growth rate forecast to 0.8%.

Source: TISCO Research

Figure 29: Total premium receipts expected to rise continuously in both cases

(Bt, bn)	2009	2010	2011	2012	2013	2014
Conservative	223	230	239	256	278	300
Consensus	230	247	262	287	318	350

- As depicted in Fig 29, total premiums are expected to continue on an upward trend for the next five years in both cases.
- The difference between each case should widen going forward.
- We estimate total received premiums for the Thai insurance industry will reach Bt300bn in 2014.

Sources: TLAA, TISCO Research

Figure 30: Premium growth rate is expected to bottom out in 2009

(% YoY)	2009	2010	2011	2012	2013	2014
Conservative	0.6	3.2	3.7	7.2	8.4	8.1
Consensus	3.8	7.1	6.3	9.6	10.5	10.1

Sources: TLAA, TISCO Research

- The Thai economy is set to contract this year (we forecast negative real GDP growth of -4.8%) for the first time since 1998. Consequently the growth rate for insurance premiums will inevitably fall also.
- With the economy now beginning to recover we anticipate stable growth for the Thai insurance industry as conditions improve.

Figure 31: Forecast penetration rate during 2009-14

(% YoY)	2009	2010	2011	2012	2013	2014
Conservative	2.58	2.57	2.53	2.53	2.54	2.55
Consensus	2.63	2.67	2.68	2.72	2.76	2.80

Sources: TLAA, NESDB, TISCO Research

- Our conservative case suggests the portion of total premium income to the country's GDP will be quite stable over the next five years.
- However, the penetration rate would improve under the optimistic case scenario, with a constant growth rate of about 0.04% of GDP per year.

Company Background

Figure 32: History

Sources: Thai Life Assurance Association (TLAA), TISCO Research

Figure 33: Robust growth record for BLA

Sources: Thai Life Assurance Association (TLAA), TISCO Research

Figure 34: BLA's market share

Sources: Company data, TISCO Research

Figure 35: BLA's RoA vs. industry

Sources: Company data, TISCO Research

Figure 36: BLA's product mix

Sources: Thai Life Assurance Association (TLAA), TISCO Research

Figure 37: Income statement (Bt, m)

Year Ended December 31,	2006	2007	2008	2009F	2010F	2011F
Net premiums written	10,434	12,296	14,732	19,261	22,381	26,092
Net investment income	1,706	1,985	2,430	2,913	3,738	4,607
Gains on investments in securities	18	131	(359)	230	50	50
Other income	21	15	26	25	28	32
Total revenue	**12,179**	**14,427**	**16,829**	**22,430**	**26,197**	**30,781**
Life policy reserve increase	5,251	6,230	7,670	10,545	11,905	14,008
Benefit payments	3,600	4,278	4,926	5,447	6,750	8,190
Commissions	1,601	1,787	1,985	2,615	3,028	3,477
Other underwriting expenses	145	188	262	341	384	441
Personnel expenses	363	426	490	573	636	687
Premises and equipment expenses	104	101	108	118	120	122
Other operating expenses	248	356	361	496	553	639
Total expenses	**11,312**	**13,366**	**15,802**	**20,136**	**23,375**	**27,565**
Income tax	215	291	277	620	762	869
Extraordinary items	0	0	0	0	0	0
Net income	**651**	**770**	**752**	**1,675**	**2,061**	**2,348**

Figure 38: Balance sheet (Bt, m)

Year Ended December 31,	2006	2007	2008	2009F	2010F	2011F
Bonds	20,707	24,167	28,449	36,302	44,525	54,189
Notes	2,551	3,677	4,067	7,262	8,907	10,840
Stocks	2,824	3,516	3,594	4,840	5,937	7,225
Debentures	4,072	7,422	7,423	10,286	12,615	15,354
Total investment in securities	**32,603**	**40,009**	**44,858**	**60,503**	**74,208**	**90,316**
Allowance for doubtful accounts	(3)	(3)	(3)	(3)	(3)	(3)
Loans net allowance	**1,340**	**1,499**	**1,798**	**2,030**	**2,292**	**2,590**
Cash and deposits	634	760	2,382	1,057	1,022	915
Other assets	2,023	2,142	2,443	3,675	4,310	4,991
Total asset	**36,601**	**44,410**	**51,482**	**67,265**	**81,832**	**98,812**
Life policy reserve	27,992	34,222	41,892	52,436	64,341	78,349
Unpaid policy benefits	2,626	3,311	3,984	4,981	6,112	7,443
Other	2,691	3,797	2,587	2,608	2,639	2,671
Total liabilities	**33,308**	**41,330**	**48,463**	**60,026**	**73,092**	**88,463**
Surplus on revaluation of investments	862	1,129	316	616	716	816
Total shareholder's equity	**3,293**	**3,080**	**3,019**	**7,239**	**8,740**	**10,348**

Figure 39: Key financial ratios

	2006	2007	2008	2009F	2010F	2011F
Premium receivable (days)	32.4	29.7	26.8	23.4	23.1	21.9
Gross profit margin (%)	15.2	14.5	14.5	17.0	16.6	14.9
Net profit margin (%)	5.36	5.34	4.47	7.47	7.87	7.63
Return on investment (%)	5.8	5.8	4.9	6.0	5.6	5.7
Cost to insurance income ratio (%)	23.6	23.1	21.8	21.5	21.1	20.6
Return on equity (%)	21.8	24.2	24.7	32.7	25.8	24.6
Return on asset (%)	1.95	1.90	1.57	2.82	2.76	2.60
Asset turnover (x)	0.36	0.36	0.35	0.38	0.35	0.34
Policy reserve to equity ratio (x)	8.50	11.1	13.9	7.2	7.4	7.6
Policy reserve to asset ratio (%)	0.76	0.77	0.81	0.78	0.79	0.79
Book value per share (Bt)	3.29	3.08	3.02	6.03	7.28	8.62
Earnings per share (Bt)	0.65	0.77	0.75	1.40	1.72	1.96

Figure 40: Quarterly income statement (Bt, m)

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Net premiums written	2,945	3,625	4,129	4,033	4,722	4,701
Net investment income	570	599	648	613	635	688
Gains on investments in securities	24	(11)	(60)	(311)	125	41
Other income	3	3	15	5	7	6
Total revenue	**3,542**	**4,215**	**4,732**	**4,340**	**5,490**	**5,435**
Life policy reserve increase	1,484	1,820	2,391	1,975	2,434	2,822
Benefit payments	1,083	1,111	1,288	1,444	1,201	1,363
Commissions	433	537	471	544	671	603
Other underwriting expenses	47	87	72	56	127	66
Personnel expenses	118	123	128	121	136	139
Premises and equipment expenses	25	28	28	28	29	29
Other operating expenses	78	97	96	90	118	107
Total expenses	**3,269**	**3,802**	**4,473**	**4,257**	**4,717**	**5,129**
Income tax	68	117	84	8	217	73
Extraordinary items	0	0	0	0	0	1
Net income	**205**	**296**	**176**	**75**	**556**	**233**

Figure 41: Quarterly balance sheet (Bt, m)

	3Q08	4Q08	1Q09	2Q09
Bonds	28,492	28,449	30,443	29,867
Notes	4,225	4,058	4,763	6,832
Stocks	3,716	3,594	3,404	3,779
Debentures	7,233	7,423	7,339	7,699
Total investment in securities	44,859	44,858	47,135	50,131
Allowance for doubtful accounts	(3)	(3)	(3)	(3)
Loans net allowance	1,635	1,798	1,825	1,848
Cash and deposits	533	2,382	3,657	3,748
Other assets	**2,258**	**2,443**	**2,403**	**2,698**
Total asset	49,285	51,482	55,021	58,425
Life policy reserve	39,917	41,892	44,325	47,147
Unpaid policy benefits	3,842	3,984	4,106	4,333
Other	2,719	2,587	3,333	3,071
Total liabilities	**46,478**	**48,463**	**51,765**	**54,551**
Surplus on revaluation of investments	180	316	(3)	517
Total shareholder's equity	**2,808**	**3,019**	**3,256**	**3,874**

Figure 42: Quarterly ratios

	3Q08	4Q08	1Q09	2Q09
Premium receivable (days)	26.2	26.1	22.8	25.1
Gross profit margin (%)	10.9	15.2	23.0	11.0
Net profit margin (%)	3.7	1.7	10.1	4.3
Return on investment (%)	0.0	5.5	5.5	5.7
Cost to insurance income ratio (%)	19.2	21.1	23.0	19.9
Return on equity (%)	8.6	2.6	70.9	6.5
Return on asset (%)	2.9	0.6	4.2	1.6
Asset turnover (x)	0.8	0.3	0.4	0.4
Policy reserve to equity ratio (x)	14.2	13.9	13.6	12.2
Policy reserve to asset ratio (%)	0.8	0.8	0.8	0.8
Book value per share (Bt)	2.8	3.0	3.3	3.9
Earnings per share (Bt)	0.2	0.1	0.6	0.2

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Corporate Governance Report of Thai Listed Companies 2008

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90 - 100	5	Excellent
80 - 89	4	Very Good
70 - 79	3	Good
60 - 69	2	Satisfactory
50 - 59	1	Pass
< 50 or not rated	n.a.	n.a.

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