BUALUANG SECURITIES

20 August 2009

Bangkok Life Assurance

Poised for strong expansion

Insurance
Neutral

IPO REPORT

BUALUANG RESEARCH

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IPO

Target Price: NM

Investment thesis: BLA presents an interesting, resilient and reliable long-term investment play, based on: 1) a favorable industry outlook, 2) a strong future growth story driven by bancassurance, 3) solid and consistent revenue streams from investment assets that are defensive in nature, 4) a strong financial position, 5) support from major shareholders (BBL, Nippon Life Insurance, Limsong Group, and Bangkok Insurance).

Favorable industry outlook: The aggregate value of life assurance premiums grew at a CAGR of 13%, FY01-08, due to a fast-growing middle-class and tax deductions on premiums. The Thai Life Assurance Association (TLAA) forecasts that total industry premiums will expand by 10.6% in FY09. We anticipate higher growth, due to tax incentives and an increased level of understanding about the value of life assurance among Thais.

Bancassurance-driven business expansion: Growth has been swift since BBL started selling BLA assurance products through its branches in late FY05. Bancassurance sales made up 24% of BLA's total premiums in FY07 and 33% in FY08. We expect this sales channel to generate more than 40% of total premiums in FY09 and FY10. Moreover, bancassurance sales mean a fatter net margin because BLA pays a lower commission to BBL than to its agents.

Defensiveness—solid recurring income: BLA's invested assets yield 5.65% annually against an OPEX/invested assets ratio of 2.20%—implying a yield gap of almost 3.5% on invested assets. BLA, thus, sits on annual recurring revenue from the yield gap of rising investment assets with potential upside from an interest rate uptrend, as 10% of its invested assets are rolled over annually at new market rates.

Fair value: BLA has a compelling valuation. Applying four valuation methodologies—DCF, PBV, PER and embedded value-derived economic value—we estimate its fair value range at Bt14.7-24.1/share for FY09. That implies an FY09 PER of between 13x and 21x and only 0.6-0.7x PEG. By comparison, SCNYL's PEG is 2.9x and the regional average is 1.9x. We have not factored in possible profit and value additions from rising interest rates. Based on our stress calculation, every 1% increase in interest rates would increase our profit forecast by 2%/year and fair value by Bt0.40/share.

Financial summary

FY Ended 31 Dec	2008	2009E	2010E	2011E
Total rev (Btm)	16,804	20,060	23,162	24,935
Net profit (Btm)	752	1,375	1,521	1,685
Fully diluted EPS (Bt)	0.75	1.15	1.27	1.40
EPS growth (%)	-2.4	52.4	10.7	10.8
PER (x)	18.6	12.2	11.0	10.0
EV/EBITDA (x)	17.9	11.5	11.2	10.6
PBV (x)	4.6	3.5	3.0	2.6
Dividend (Bt)	0.38	0.57	0.63	0.70
Dividend yield (%)	2.7	4.1	4.5	5.0
ROE (%)	24.9	28.3	27.1	25.6
ROA (%)	1.5	2.2	2.0	1.9
Net gearing (x)	15.3	11.4	11.8	11.8
Total loss ratio (%)	10.7	9.3	9.3	8.9
Total premium Mkt (%)	6.7	7.0	7.0	7.0

Company profile

Bangkok Life Assurance Public Company Limited (BLA) is one of the largest pure life assurance players under an umbrella of Bangkok Bank Group. The firm ranked sixth on fist year premium market share of 6.1% and ranked fifth with 6.7% market share of total assurance premium in FY08. The revenue contribution of FY08 total assurance premium from Agent, Bancassurance, and Others could be broken down into 65:33:2, respectively. Presently, the firm has about 12,200 agents with 69 branch networks nationwide.

IPO data

IPO shares: A total of 200m shares (at Bt1 par value) will be offered in this Initial Public Offering, comprising only 200m newly-issued shares. Note that the 200m new shares do not include 20m new shares issued and allocated to the staff and management of BLA after the IPO.

Paid-up capital: Post-IPO, paid-up capital will be Bt1,200m (200m shares at Bt1 par value), up from Bt1,000m in pre-IPO paid-up capital. Moreover, the firm plans to issue another 20.0m shares under its Employee Stock Option Program (ESOP). Thus, BLA's total number of shares will increase to 1,220m from 1,000m currently at a par value of Bt1.00.

Financial advisor: Capital Nomura Public Company Limited (CNS)

Lead underwriter: Bualuang Securities Public Company Limited (BLS)

Capital Nomura Public Company Limited (CNS)

Cash proceeding from IPO: To increase working capital, to strengthen the firm's capital base and help finance business expansions.

Blackout Begins: August 23, 2009

Subscription period: September 7-11, 2009

First trading day: September 24,2009

Post-IPO shareholders: The Sophonpanich family will remain the major shareholder (32.2%), followed by Nippon Life Insurance (20.8%) and Bangkok Bank Plc (7.7%). Shareholders from the IPO of the newly-issued 200m shares will together hold a 16.7% stake (see Figure1).

Figure 1: BLA's shareholding structure, pre- and post-IPO

Source: Company

Investment highlights

We have summarized BLA's key investment highlights below:

Dynamic industry growth: Aggregate life assurance premiums grew at a CAGR of 13%, FY01-08. The Thai life assurance industry has a low penetration rate of 2.39% against 3-5% for comparable nations in the region. As the Thai middle class expands, demand for insurance products rises. The Thai life Assurance Association (TLAA) forecasts that industry-wide premiums will expand at least 10.6% in FY09 despite a 3% GDP contraction. But that projection was made before the government doubled the tax deduction on life assurance premium payments to Bt100,000. Hence, there is significant scope for upside. Furthermore, premium growth is unlikely to be adversely affected by a weakening economy—affluent consumers tend to save more and spend less during an economic downturn and various life assurance products are effectively tax-deductible long-term saving vehicles.

Strong distribution channels: BLA had 12,214 agents nationwide at YE08, who built 38% of the first-year premium revenue (FYP) and generated 65% of total premiums in FY08. Furthermore, the firm has a swiftly expanding sales channel—bancassurance sales through Bangkok Bank's 900-branch network. BBL's branch network generated 58% of FYP revenue in FY08 and 80% in 1H09. The BBL sales channel not only makes for convenient access for clients but also entails a substantially lower commission cost/written policy ratio than sales generated by commission agents, making for greater profitability.

Defensive solid recurring revenue streams: An expanding investment asset portfolio makes for recurring income. According to Watson Wyatt, an independent global insurance consultant, BLA's investment assets generally yield 5.65% against an OPEX/investment assets ratio of 2.2%. That indicates the firm has a yield gap of about 3.5% on its invested assets, going forward. Its investment yield has so far been fairly consistent—the portfolio comprised bonds & debentures:B/Es:stocks:loans & others in the proportions 74:11:7:8 at end-June 2009. Moreover, the firm stands to benefit from an interest up-trend, as about 10% of its invested assets are rolled over at market rates annually. We calculate that every 1% increase in interest rates would boost our profit forecasts by 2% a year.

Prudent accounting policy: BLA normally sets aside life policy provisions equal to 16.6% of its total life policy reserve—somewhat higher than its 11.4% loss claim ratio (claimed amount/life policy reserve). The firm is effectively cushioned against any risk short of an Act of God. Furthermore, BLA posted a high 8% solvency capital ratio at end-June 2009 (the reserve requirement is just 2%). The capital increase will add more room for expansion.

Leveraging from major shareholders: Bangkok Life Assurance Plc (BLA) was founded by the Sophonpanich family in 1951. It has a 58-year track record of protecting Thai families from the financial consequences of a death in the family. Nippon Life Insurance, the second-biggest shareholder, is BLA's strategic partner. The partnership means that the firm has opportunities to import skill sets, business models and technologies that were first tested and demonstrated successful in Japan, a mature life assurance market. At YE08 BLA ranked 5th in a fragmented but fast-growing industry with a 6.72% market share. Moreover, in 1Q09 the firm built its market share to 8.31% (its rank remained 5th).

Strengthened financials: BLA is net debt-free with a large liquid investment portfolio, mostly in bonds. We view that the forthcoming capital-raising will strengthen the firm's growth profile and its already solid financial position. BLA's FY08 capital base/policy reserve ratio is expected to rise from 8% at end-June 09 to 12% at YE09. The Ministry of Commerce's minimum reserve requirement is only 2%.

Background

The company was established in 1951 by the Sophonpanich family as Suksawat Prakarn Cheewit Co Ltd (translates roughly as Secured Well-being Life Assurance). In 1979 the firm's name was changed to Bangkok Life Assurance Co Ltd. In 2007 it changed its status to a public limited liability company. BLA's products can be classified into two main categories—ordinary life assurance and group life assurance (the company's reinsurance business accounts for only 2.2% of total premiums). Both ordinary life assurance and group life assurance encompass a range of products, as follow:

Ordinary life assurance products: BLA offers ordinary life assurance with a minimum obligated claim of Bt50,000 per written policy. It has more than 50 types of policies with maturities ranging 5, 10 and 15 years. Additionally, this insurance can be designed as a single year payment, a so called single premium. Ordinary life assurance is separated into four broad product types—Whole Life Assurance, Term Assurance, Endowment Assurance and Rider. In FY08 the FYP:RYP (Renewal Year Premium) ratio was 28:72. Ordinary life assurance FYPs accounted for 80% of total first year premiums in that year. Ordinary life assurance RYPs represented 90% of total renewal year premiums.

- **Whole Life Assurance:** This product is designed to deliver all obligated benefits and returns to the buyer when he/she reaches 99 years old, or the benefits will be allocated for to the policyholder's beneficiaries if he dies before then. The term of premium payment ranges 15 to 20 years until the policyholder reaches the age of 60 years. Normally, this product also provides coverage for accidents and illnesses.
- **Term Assurance:** All obligated benefits are paid to the policyholder at expiry. Typically, this assurance covers the buyer for a period of between 5 and 15 years, depending on the length of time stipulated in the contract, or until his death, so long as he dies before policy expiry.
- **Endowment Assurance:** A hybrid savings/investment vehicle that combines term-assurance features with a guaranteed lump sum payment at contract expiry. For all types of assurance, endowment is a very popular class. In FY08 more than 64% of FYPs were for endowment policies (see Figure 2). Endowment products also accounted for 75% of total renewal year premiums and 64% of total first year premiums in FY08. Endowment's share of the sales mix should be, at the very least, sustained in FY08. Endowment policies present a tax-efficient way of saving over the life of the policy—even more tax efficient since March when the government increased the tax deduction ceiling on life assurance premiums from Bt50,000 to Bt100,000.
- **Rider:** An additional written contract that covers an existing policyholder for death and/or organ losses due to accidents. Normally, the product is attached to personal accident (PA) or healthcare insurance polices (mostly covering medical attention expenses and salary compensation during incapacitation).

Figure 2: First year premium and renewal premium breakdown in FY08

Source: Company

Group Life Assurance: These products are designed for groups, a minimum of five individuals. The groups may purchase the same life assurance products as individuals with the same obligated benefits. Normally, group life assurance carries lower premiums per person compared with ordinary life assurance. Unlike ordinary life assurance, the maximum term of all group assurance policies is only 12 months, so they must be renewed annually. Such policies are commonly sold to companies that offer insurance/assurance coverage to staff. Group life assurance accounted for 20% of FYP revenue in FY08.

Outlook

Dynamic industry growth

Life assurance is on the way up: Industry premium revenue posted a modest 13% CAGR, FY01-08, from Bt94bn to Bt222bn. Likewise, the net written premium per policy rose by a 7.03% CAGR between FY97 and FY07. In FY08, the total value of assurance premiums jumped by 10% to Bt222bn (FYP grew by 2% to Bt45bn, accounting for 20% of total premiums; RYP by 9% to Bt153bn; single premium policies by a spectacular 31% to Bt24bn, albeit from a fairly low base). The main drivers were low interest rates and the doubling of tax deductions for life assurance premiums to Bt100,000 in March 2008.

Figure 3: Industry average net written premium per policy and total premiums and total premiums/GDP (%), FY01-08

Source: Company

Figure 4: Industry trends for FYP, single premium, total new business, RYP and total premiums (Btm)

Sources: Thai Life Assurance Association (TLAA) and Bualuang estimates

Penetration rate still low compared with region: In FY07 Thailand's total assurance premium/GDP rate (effective penetration rate) was a low 2.3%. In comparison, Malaysia's penetration rate was 3.2%. The rates of developed and newly industrialized jurisdictions in the region were: Taiwan 11.6%, Japan 8.4%, Hong Kong 7.7%, Korea 7.6% and Singapore 5.4% (see Figure 5 below). Thailand has a lower per capita GDP than all the countries noted above, but it has a rapidly expanding educated middle class. Insurance is very much a feature of middle class lifestyles—as disposable incomes rise, so will demand for insurance and life assurance. The Bank of Thailand forecasts FY09 GDP growth of between –3.0% and –4.5% from +2.6% last year. Nevertheless, the government's decision in March 2008 to double the tax deduction ceiling on assurance to Bt100,000 a year should offset effect of the economic slowdown this year by boosting FYPs to substantially above the trend level, we believe, especially for endowment policies.

Environmental support: There are two more factors driving industry growth in FY09-10. First, the government has introduced a stimulus package to boost consumer purchasing power. At the same time, the financial crisis has made the general public more aware of the importance of saving and risk management via a variety of life assurance policies. Second, the introduction of qualified sales representative license examinations will help improve the image and quality of sales representatives and boost consumer confidence in the industry.

Figure 5: Total Thai premiums as a percentage of GDP & Asian penetration rates in FY07

Source: Company

Figure 6: Consumer Confidence Index, FY07-April 2009, and total life assurance premium trends, FY01-08

Source: Company

Industry expands in tandem with market: Typically, life assurance is popular with the educated middle class, particularly families with mortgages. Ordinary life assurance products are tailored for office staff, employees, civil servants, employers, depositors and lenders. All three main sales channels, mentioned above, should report new sales and/or return business this year. The clients of group life assurance policies tend to be employed at companies or state-owned enterprises, hold credit card accounts or be clients of housing or business loans. The life assurance industry should grow at above trend this year, as the government in March 2008 doubled the tax deductibility of life assurance premiums from Bt50,000 to Bt100,000. We expect many existing policyholders to increase their premiums in order to benefit from the more generous tax incentives.

Figure 7: Breakdown of FYP (plus single premium) market (%), FY03-08 and Jan 2009

	2003	2004	2005	2006	2007	2008	Jan-09
American International Assurances (AIA)	37.1	39.7	35.1	33.3	28.8	26.2	22.5
Ayudhaya Allianz CP Life Plc (AACP)	17.3	10	11.5	11.3	14.4	7.5	9.2
Thai Life Insurance	15.3	14.3	13.2	13.8	11.7	6.5	11.4
Siam Commercial New York Life Insurance Plc	3.5	9	7.5	6.6	8.3	8.8	10.3
Muang Thai Life Assurance	4	4.9	6	7.3	7.8	10.1	8.7
Bangkok Life Assurance Plc	**6**	**6**	**8.1**	**6.9**	**6.4**	**6.1**	**12.2**
Krungthai AXA Life Insurance	2	1.7	2.9	3.8	5.2	6.4	6.2
Ocean Life Insurance	4.5	4.9	4.5	5.2	4.2	3.1	3.4
ING Life Limited	2.1	2.5	3	4	4	3.1	2.6
Prudential Life Assurance (Thailand) Plc	1.2	0.7	1.1	1.4	1.9	1.7	1.8
Thai Cardiff Life Assurance	0.1	0.2	0.3	0.2	1.8	0.5	0.5
Generali Life Assurance	0.6	0.6	0.6	1.1	1.2	0.7	1.3
Finansa Life Assurance	0	1.4	2	1.4	1	0.6	0.5
Siam City Life Assurance	2.2	1.2	1	0.6	0.9	1.1	1
ACE Life Assurance	0.3	0.5	1.1	1.2	0.9	1.6	1.3
Others	3.6	2.3	2.2	2	1.8	2.5	7.1
Total	100	100	100	100	100	100	100

Sources: TLAA and Bualuang estimates

Figure 8: Breakdown of total premium market (%), FY03-FY08, and 4M09

	2003	2004	2005	2006	2007	2008	4M09
American International Assurance (AIA)	46.7	45	42.7	41.9	38.9	37.9	33.3
Ayudhaya Allianz CP Life Plc (AACP)	11.1	12.2	11.8	10.6	9.5	6.5	5.8
Thai Life Insurance	17	15.1	15.6	14.1	15.2	14.4	13.9
Siam Commercial New York Life Insurance Plc	2	3.9	5.2	5.8	6	6.8	8.1
Muang Thai Life Assurance	4.4	4.8	4.9	5.8	6.8	7.7	8.7
Bangkok Life Assurance Plc	**4.9**	**5.8**	**5.5**	**6**	**6.1**	**6.7**	**8.2**
Krungthai AXA Life Insurance	0.8	1	1.7	2.1	2.9	4.1	4.6
Ocean Life Insurance	5.3	5	4.8	5.1	4.6	4.3	4.4
ING Life Limited	0.9	1.2	1.5	2	2.4	2.8	2.6
Prudential Life Assurance (Thailand) Plc	0.7	0.6	0.6	0.7	0.9	1.1	1.2
Thai Cardiff Life Assurance	0	0.1	0.2	0.4	0.7	0.6	1
Generali Life Assurance	0.2	0.2	0.2	0.3	0.5	0.5	0.7
Finansa Life Assurance	1.5	1.2	1.4	1.1	1	0.8	0.7
Siam City Life Assurance	1.2	1	0.9	0.8	0.8	0.8	0.8
ACE Life Assurance	0.1	0.2	0.4	0.5	0.5	0.8	0.7
Others	3.2	2.7	2.6	2.8	3.2	4.2	5.2
Total	100	100	100	100	100	100	100

Sources: OIC and Bualuang estimates

Anticipate 10.6% growth in assurance premiums in FY09: Among all life assurance products, ordinary life assurance constituted 73% of total first year premiums in FY08, up by 31% YoY, while group life assurance commanded 20%, up by 26%. American International Assurance is the life assurance market leader—in FY08 it had an overwhelming 26% market share of FYPs and a 38% market share of total life assurance premiums. BLA in FY08 ranked sixth with an FYP market share of 6.1% and ranked fifth with a 6.7% market share of total premiums. The Thai Life Assurance Association forecasts FY09 total industry assurance premium growth of 10.6%. Yet, we project BLA's total assurance premium expansion at 13% YoY to Bt17bn, based on an increased market share to 7.0% from 6.7% last year, driven by bancassurance sales and greater tax incentives.

Figure 9: Breakdown of FYP market, by vendor, FY08 and Jan 2009

Breakdown of FYPs (%), FY08

Breakdown of FYPs (%), Jan 2009

Sources: Company and TLAA

Figure 10: Breakdown of total premiums, by vendor, FY08 and 4M09

Market share of total premiums (%), FY08

Market share of total premiums (%), 4M09

Sources: Company and TLAA

Strong forward growth profile

BLA's FY01-08 premium revenue CAGR was 20%: BLA's total life assurance premium revenue rose at a 20% FY01-08 CAGR, from Bt5.7bn to Bt15n in FY08. FYP posted a CAGR of 20.5% and RYP a CAGR of 51.5% for the period. The firm's total premium revenue growth rose at a broadly faster rate than the industry as a whole, FY01-08 (see Figures 11). In FY08 BLA's total earned premiums were Bt15bn, up 20% YoY (against industry growth of only 10%YoY). We forecast that BLA's total premium revenue will grow by a further 15% in FY09, led by bancassurance FYP income. Note that 1H09 total assurance premium revenue jumped 42% YoY to Bt9.6bn (1H09 FYP and RYP rose by 66% YoY and 30% YOY, respectively, to Bt3.8bn and Bt5.8bn).

Figure 11: BLA's FYP, RYP, SP and total premiums in FY08 and market share of total premiums (%)

Sources: Company and TLAA

Figure 12: Growth rate of FYP, RYP and total premiums, FY02-1H09 (%)

Sources: Company and TLAA

Strong sales through agents: At end-March 2008 BLA had 12,214 authorized life assurance agents paid by commission, up by 2.37% YoY and the fifth-largest number in the market. That figure includes life assurance team managers totaling 1,300 persons. BLA plans to more than double the number of team managers it employs to 2,800 persons (promoting current agents and recruiting team managers from competing companies) this year in order to increase sales. An expanded number of team managers will mean substantially more commission agents. In FY08 BLA's agents generated 38% of total FYPs, up 18% YoY to Bt1.59bn, and 77% of RYPs, up 17% YoY to Bt7.9bn. Note that in 1H09 BLA's agents were responsible for 17% of FYP and 65% of RYP income.

Rapid growth driven by sales at BBL branches: In 2005 Bangkok Bank (BBL) started selling BLA life assurance policies through its network (after the Ministry of Commerce started licensing commercial banks to sell insurance products in late 2004). Revenue from this channel has increased rapidly from Bt1.06bn in FY05 (FYP Bt1.05bn; RYP Bt4m) to Bt4.7bn in FY08 (FYP Bt2.4bn; RYP Bt2.3bn), up 347% in four years (or a CAGR of 65%). The channel's revenue contribution rose from 11% of total life assurance premiums in FY05 to 33% in FY08. In 1H09, this channel contributed up to 48% of total assurance premiums. We conservatively forecast that this channel will contribute over 40% in FY09 and FY10.

Other channels make modest contributions: BLA also sells through insurance brokers and by direct mail. The two channels together contributed about 2% of the firm's total life assurance premiums in FY08. BLA does not expect either channel to expand in importance in the future. Yet, the channels contributed 7% of total assurance premiums in 1Q09 (mostly insurance brokers).

Figure 13: BLA's premium revenue channels between FY05-1H09

Sources: Company and Bualuang estimates

Figure 14: Growth rate of total new business, RYP and total premiums, FY04-08 (%)

Sources: Company and TLAA

Secure investment portfolio

Securely invested assets: Revenue from investments is the second-largest annual top-line contributor after assurance premiums. BLA has reinvested its revenue from premiums into debt instruments, such as government bonds, corporate bonds (debentures) and promissory notes (P/N), fundamentals-based stocks and unit trusts and loans. As of end-June 2009, Bangkok Life Assurance's investment portfolio comprised government bonds&debentures: promissory notes: equities: unit trusts: lending in the proportions 74:11:7:4:4 (see Figure 9). Its long-term fixed-income instruments represented 74% of total investments with an average maturity of nine years. At end-June 2009 the investment portfolio totaled Bt52bn, up 17% YoY from end-June 2008. We forecast that its portfolio will grow by 24% in FY09, driven by rising FYP and RYP revenue on an increasing market share, yield income and capital gains on stock investments.

Investment yield is resilient to sharp drops in market interest rate: BLA re-invests premium revenues (exclusive of provisions) into the long-term instruments noted above. The average investment yield in FY08 was 5.3% (excluding investment losses of 0.8%), flattish YoY. Despite the interest rate downtrend in FY08, the firm sustained its investment yield at above 5% (see Figure 16) because 77% of its investments were in long-term bonds with an average duration of nine years. The 1Q09 and 2Q09 investment yield was stable at 5.3% (excluding a 1% gain on the investment portfolio in 1H09).

We forecast that the recurring investment asset yield can be sustained at not less than 5.2% in FY09 and next year (excluding investment gains). In FY08 BLA's net interest income grew by 22% YoY to Bt2.4bn. We expect FY09 interest income to rise a further 9% to Bt2.7bn. Note that the company's 1Q09 and 2Q09 net interest income increased 11% YoY and 15% YoY to Bt635m and Bt688m, respectively.

Constant return on investment assets: Expanding invested assets make for greater recurring income. BLA's invested assets normally yield 5-6% (plus investment gains) against an operating expenses/investment assets ratio of 2.2%. As such, the yield gap will expand as recurring income builds the firm's asset base. The yield on revenue from invested assets will strengthen, while the operating expenses/invested assets ratio should decline—fixed expenses will account for a diminishing proportion of total costs. In our model, we conservatively assume a yield on invested assets of 5.3% and 2.2% expenses on invested assets in FY09-10.

Figure 15: BLA's investment portfolio, FY05-2Q09

Sources: Company and Bualuang estimates

Figure 16: Benchmark rate on yield curve of 10-year bond and investment yields of various bonds

Sources: That BMA and Bloomberg

Interest income from lending is a plus: BLA lends to three groups—staff members and agents, clients (backed by life assurances policies) and other parties with loans collateralized by land and buildings. Total lending grew by 16% YoY to Bt1.9bn at end-June 2009 and represents 3.5% of the total investment portfolio. Its interest rate is set at about 6%—close to invested asset rates. The lending details are as follow:

Figure 17: Lending activities, FY06-1H09

	FY06	%	FY07	%	FY08	%	1H09	%
Life insurance backed loans	620	462	829	553	1,051	584	1,214	628
Asset collaterallized loans	716	534	662	441	738	410	707	366
Other loans	5	0.4	9	0.6	12	0.7	12	0.6
Total	1,341	1000	1,500	1000	1,801	1000	1,933	1000

Source: BLA

Figure 18: Lending classified by type, FY06-1H09

Source: BLA

Good operating cost control

Underwriting expenses are the biggest operational cost: The firm's operating expenses comprise underwriting costs, provisions for life policies and SG&A. The provisions for life policies typically account for 49% of total expenses. The underwriting expense varies broadly in trend with premium revenue as a direct variable cost (equal to about 49% of the value of premiums and around 42% of total revenue in FY08). In 1H09 BLA's underwriting expenses declined to 43% of total assurance premiums and 36% of total revenue because of the achievement of economies-of-scale and an increased proportion of bancassurance sales (bancassurance entails much lower commission expenses than sales through agents). We anticipate that the firm will maintain the current ratio this year and next (see Figure 19).

Prudent provisioning for life policies: BLA normally sets aside provisions for life policies at 50% of the total assurance premiums for each year. Thus, its reserve for life policies rose in line with provisioning from Bt19bn at YE04 to Bt42bn at YE08. The firm set a substantial life policy reserve of Bt5.3bn in 1H09, representing an above-trend 55.7% of total assurance premium revenue. However, we expect the 2H09 provision to be set at a level that when combined with the 1H09 provision makes for an FY09 life policy reserve of about 50%. The firm's provisioning on life policies should also remain at about 50% in FY09 and FY10.

Figure 19: OPEX (Btm) and growth rate (%), FY03-09f

Sources: Company and Bualuang estimates

Risks

Economic risk: Changes in consumer confidence and the economy are the key factors affecting buying decisions for life assurance. Such factors may cause penetration rates (premium per GDP) to vary from year to year. Note that the penetration rate for life assurance was 2.16% of GDP at YE07, but is expected to rise this year.

Interest rate risk: BLA's interest income is anticipated to make up about 13% of its total income in FY08. Therefore, changes in market interest rates could cause the firm's dividend income or yield on investments to vary in comparison to committed returns to life policies.

Financial risk: The structure of an investment portfolio is crucial to the viability of a life assurance firm. As of YE07, BLA's investment portfolio was categorized into govt bonds:debentures:promissory notes:equities:cash & others in the proportions 57:18:9:8:9.

Lack of experienced life assurance agents: Selling life assurance products requires a clear understanding of the products, the client's needs and an eye for after-sales service. Currently, BLA has only 11,240 staff and commission agents. It has fairly ambitious expansion plans, which in pre-bancassurance days would have meant the recruitment of a lot more sales agents. However, now that banks are allowed to sell life assurance, we believe sales through Bangkok Bank's branch network should be sufficient to meet targets.

Regulatory risk: The Ministry of Commerce is in charge of regulating life assurance. The minimum policy reserve is currently 2% of the net worth of the policies. But there is no guarantee that it will not be raised. BLA's current ratio, however, is already about 15x that level and will increase further with the IPO.

Rising risk from extra expenses from OIC: The Office of Insurance Committee (OIC) was established this year to build a fund to protect the life policies of the public against the risk of financial default by life assurance firms that are members of the group. This year all the members of the committee are required to pay 0.30% of their first-year premiums and 0.15% of their renewal premiums into the fund. We have already factored in this expense at Bt39m for FY08 and about Bt30m next year. It's possible that the payment obligations might rise if the OIC decides to build the fund at a faster pace.

Loss rate risk: The loss rate (claim rate) is one of the major expenses of life assurance companies. Statistically, BLA's loss rate is about 11-12%, in line with the industry. The firm has demonstrated already that it controls its loss expenses well. Furthermore, its persistency rate for written life assurance remains high at 90.4%.

Earnings outlook

We expect Bangkok Life Assurance to demonstrate substantial profit growth momentum over the next three years. We anticipate that profit growth will be roughly offset by the 20% dilution effect of the IPO. Earnings should rise by 83% this year and 11% YoY in both FY10 and FY11, we believe. That would give make for an impressive FY08-11 earnings CAGR of 40%. The key earnings drivers will be:

A rising market share via bancassurance: BLA is projected to deliver an FYP CAGR of 15% over the next three years, based on our conservative assumption of a 7% market share. We, however, see scope for upside to that projection, due to the rising number of agents and sales through BBL's branch network. The revenue contribution from bancassurance soared 84% YoY to Bt5bn in FY08, representing 33% of total assurance premiums. We forecast that this channel will become the major driver of BLA's rising market share this year.

Secure investment yield: We anticipate an investment yield of 5.3% (excluding yield on investment gains). We also see upside potential for interest rates. Based on our stress calculation, every 1% increase in interest rates would increase our profit forecast by 2%/year and fair value by Bt0.40/share We forecast that BLA's investment portfolio will expand 49% from YE08 to Bt67bn by YE10. Revenue from interest and dividend income is projected to grow broadly in line with invested asset growth.

Declining cost/income ratio as economies-of-scale are built: BLA's cost/income ratio declined from 53% in FY05 to 48% in FY08 as it built scale. We expect the firm to curb its cost/income ratio even further, going forward, as sales through BBL's branch network entail much lower costs than sales through agents. We forecast that BLA's FY09 cost/income ratio will decline to 41%. Note that the firm has no plan this year to expand its own branch network, currently 69 offices.

Substantial capital reserve to cover rising number of life policies: The Ministry of Commerce stipulates that all life assurance companies must set aside at least 2% of their capital against written life policies. At end-June 2009 BLA's solvency capital reserve/total life assurance policy ratio was quite high at 8.2% versus a 2% minimum requirement. Furthermore, the capital increase will boost its reserve/capital ratio to about 12%. As such, capital deficiency will not be an issue, despite swift business expansion.

Figure 22: Profit & growth rate, FY05-10f, and peer reserve comparison for FY07

Sources: Company and Bualuang estimates

Financial Health

Improving D/E ratio after capital increase: Proceeds from the IPO and solid earnings, FY08-09, will push YE09 shareholder equity even more strongly into the black. Furthermore, the reinvestment of IPO proceeds and operating cash flow will strengthen BLA's gearing ratio and boost interest and dividend income. We expect the consolidated D/E ratio to plunge from 14x at end-June 2009 to 12x at YE09, adequate for aggressive expansion without need for a cash call for quite a number of years.

Sustainable net margin: With 13% YoY growth in total assurance premiums, BLA should maintain a net margin of 12% for FY09 and FY10, up from 8.3% last year, through the building of economies-of-scale in all sales channels, especially bancassurance.

High investment asset/life ratio policy: Life assurance companies must pay up on policies that mature or in the case that the policyholder dies. Bangkok Life Assurance should have no trouble honoring policy commitments, as its investment portfolio (plus cash on-hand) was 17% bigger than the value of its life policy reserve at YE08, anticipated to rise to 20% at YE09 (post-IPO). Thus, we think default risk is negligible. Furthermore, most of BLA's investment portfolio is composed of fixed-income instruments, such as government bonds, SOE bonds and notes with considerable trading liquidity.

Figure 23: Net margin (%), ROE (%) and debt/equity ratio, FY05-10f, and life policy reserve and investment assets (Btm)

Sources: Company and Bualuang estimates

Figure 24: Equity-to-life policy reserve, FY05-1H09, Assets and growth, FY05-1H09

Sources: That BMA and Bloomberg

Figure 25: 2Q09 results

BLA	2Q09	1Q09	%QoQ	2Q08	%YoY	1H09	1H08	%QoQ
Net insurance premium revenue	4,701	4,722	-0.5	3,625	29.7	9,423	6,570	43.4
Less provision for life policy reserve	2,822	2,434	15.9	1,820	55.0	5,255	3,304	59.1
Revenue realization on premium	**1,879**	**2,289**	**-17.9**	**1,804**	**4.1**	**4,168**	**3,266**	**27.6**
Underwriting expenses	2,032	1,999	1.6	1,735	17.1	4,030	3,298	22.2
Profit from insurance business	**-153**	**290**	**-152.6**	**69**	**-319.8**	**137**	**-33**	**-520.6**
Net investment income	**688**	**635**	**8.3**	**599**	**14.9**	**1,324**	**1,169**	**13.3**
Gain on investment	**41**	**125**	**-67.5**	**-11**	**-473.9**	**166**	**13**	**1,199.9**
Total revenue from investment	729	761	-4.2	588	24.0	1,490	1,181	26.1
Other income	**6**	**7**	**-13.6**	**1**	**428.3**	**12**	**4**	**192.5**
Total revenues	582	1,057	-44.9	658	-11.6	1,639	1,153	42.2
Total operating expenses	**276**	**284**	**-3.0**	**246**	**12.2**	**560**	**467**	**19.9**
EBT	307	773	-60.4	413	-25.7	1,080	686	57.4
Income tax	**73**	**217**	**-66.1**	**117**	**-37.1**	**290**	**185**	**56.8**
Net profit	233	556	-58.1	296	-21.2	789	501	57.6
EPS	**0.23**	**0.56**	**-58.1**	**0.30**	**-21.2**	**0.79**	**0.50**	**57.6**
Cash&Cash Equivalent	3,748	3,657	2.5	691	442.5	3,748	691	442.5
Investment assets	50,131	47,135	6.4	42,694	17.4	50,131	42,694	17.4
Total Assets	58,425	55,021	6.2	47,222	23.7	58,425	47,222	23.7
Life policy reserve	47,147	44,325	6.4	37,526	25.6	47,147	37,526	25.6
Total liabilities	54,551	51,765	5.4	44,123	23.6	54,551	44,123	23.6
Shareholders' Equities	3,874	3,256	18.98	3,099	24.98	3,874	3,099	24.98
Performance Ratios								
Premium/life policy reserve	9.97	10.65	nm	9.66	nr	19.99	17.51	nm
Life policy provision/Premium	60.03	51.53	nm	50.21	nr	55.77	50.29	nm
Total loss ratio	10.59	9.92	nm	10.79	nr	9.96	10.65	nm
Net margin	9.47	16.63	nm	12.01	nr	13.59	11.34	nm
Profitability Ratios								
ROAE	24.07	68.35	NM	38.19	NM	40.76	32.32	NM
ROAA	1.60	4.04	NM	2.51	NM	2.70	2.12	NM
Capital Position								
Equity/Life policy reserve	8.22	7.35	NM	8.26	NM	8.22	8.26	NM
D/E	14.08	16.90	NM	15.24	NM	14.08	14.24	NM
Cost to income%	47.35	26.88	NM	37.31	NM	34.15	40.51	NM

Sources: Company data, Bualuang Research

Recommendation and valuation

Fair price in the Bt14.7-36.7 range, based on four approaches: We have appraised BLA's value based on four approaches—the discounted cash flow model, economic value based on embedded value and PBV and PER peer comparisons for FY09. Of the four approaches, the DCF model gives a fair price of 24.1 for BLA; the economic value, PBV and PER comparisons indicate fair prices of Bt18.0, Bt14.7, and Bt36.7, respectively. For more conservative fair valuations, we cut the highest PER range comparisons and have come up with new range for BLA's YE09 fair value of between Bt14.7 and Bt24.1 (implying a median fair price of Bt19.4).

DCF approach gives Bt24.1: Based on a discount rate of 11.5% (implied average Ke) and 12 operational years, FY09-20, we appraised BLA's FY08 fair value at Bt24.1/share.

Economic value based on embedded value (EV) indicates target price of Bt18.0: Our valuation assumes that BLA has a net in-force value of Bt9bn, a net worth of Bt4.7bn and a new business value of Bt1bn for FY09. We calculated embedded value at Bt11.6/share (its in-force value plus net worth/shares). We also anticipate new business value of Bt6.45/share, based on a stable business value of Bt1bn annually over the next seven years. By combining both EV and new business value, we appraised BLA's economic value at Bt18.0/share.

Implied target price of Bt14.7, based on a simple average PBV comparison: Applying a simple average 3.6x PBV of seven comparable industry peers to BLA's BV of Bt4.05, we arrived at a YE09 target price of Bt14.7. Note that the peers comprise seven pure life assurance plays—Ping An Insurance (Group), China Life Insurance, China Pacific Insurance (Group), AMP Limited, Axa Asia Pacific Holding, Cathay Financial Holding and Insurance Australia Group (IAG).

Implied target price of Bt36.7 based on a simple average PER comparison: Applying a simple average 32.0x PER for seven comparable industry peers to BLA's EPS of Bt1.15, we calculated an implied YE09 target price of Bt36.7.

Figure 26: Sector valuation PER, FY09-10

	Bloomberg Code	Price (local curr)	PER(x)		PBV(x)		ROE(%)		Div yield(%)	
			FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
AMP Limited	AMP AU	6.13	17.6	16.22	5.49	5.07	33.0	33.1	4.86	5.09
Axa Asia Pacific Holding	AXA AU	4.57	16.7	15.34	2.29	2.17	14.3	14.5	4.11	4.49
Cathay Financial Holding	2882TT	49.25	34.7	24.54	3.11	2.89	11.8	12.0	0.65	1.53
China Life Insurance	601628CH	28.37	38.2	30.57	4.90	4.80	12.9	14.5	1.30	1.61
China Pacific Insurance	601601CH	23.76	50.1	80.7	3.33	3.04	6.0	7.6	0.64	0.86
Insurance Australia Group	IAG AU	3.98	25.7	14.37	1.83	1.85	6.5	12.2	2.81	4.57
Ping An Insurance	601318CH	52.62	41.2	35.17	4.35	3.99	10.6	11.2	0.89	1.17
Simple average			**32.0**	**31.0**	**3.6**	**3.4**	**13.6**	**15.0**	**2.2**	**2.8**

Sources: Bualuang estimates, Bloomberg and Reuters

Figure 27: Embedded value

Valuations Bangkok Life Assurance Plc., (BLA)	2007	2008	2009F	2010F
Net assets (Equity-unrealized gain)	1,951	2,702	4,729	5,563
Adjusted net worth	3,080	3,019	4,865	5,618
Value of in-force before cost of solvency margin	**10,000**	10,459	10,986	11,666
Cost of solvency margin	**-1,672**	-1,749	-1,837	-1,950
Value of in-force after cost of solvency margin	**8,328**	**8,711**	**9,149**	**9,715**
Embedded value	**10,279**	**11,413**	**13,878**	**15,279**
EV per share	10.28	9.51	11.57	12.73
Shares (Million)	1,000	1,200	1,200	1,200
VIF (need to double check with Actuary on calculation).				
VIF at begin	3,200	8,328	8,711	9,149
VNB	1,000	1,111	1,206	1,387
	424	1,020	1,069	1,130
Other changes	5,376			
Before cost of solvency	**10,000**	**10,459**	**10,986**	**11,666**
Cost of solvency margin	-1,672	-1,749	-1,837	-1,950
VIF at end	8,328	**8,711**	**9,149**	**9,715**
VIF per share				
VIF / Liability				
No. of policies				
Per policy				
VNB				
VNB before cost of solvency margin	**1,000**	1,111	1,206	1,387
	-166	-186	-200	-230
VNB after cost of solvency margin	834	925	1,006	1,157
VNB per share				
VNB growth				
New business premiums (pure new business)				
New business premiums (based on company calc)	3,272	4,269	4,824	5,548
VNB margin (pure new business)				
NB margin (based on Ping An Calc)				
Change in NB margin				
New business premium growth	34%	30%	13%	15%
VIF	**8,328**	**8,711**	**9,149**	**9,715**
NAV adjust	1,951	2,702	4,729	5,563
VIF Valuation/Share	8.33	7.26	7.62	8.10
NAV Valuation/Share	1.95	2.25	3.94	4.64
Embedded value/Share	**10.28**	**9.51**	**11.57**	**12.73**
VNB Value of future business (THBmn)	834	925	1,006	1,157
VNB Valuation (per share)	6.42	5.93	6.45	7.42

Sources: Company, Bualuang estimates

Figure 28: Calculation on new business

Value of Future business assumptions		
	Multiple	**valuation premium**
VNB (Payout/Ke-Growth rate)	7.7x	0%
VIF Multiple	1.0x	0%
Book value	1.0x	0%
Discount rate	11.50%	
Payout	50.00	
Ke	11.50	
Growth	5.00	
Multiple of VNB	**7.69**	
Risk fee	6.00	
Risk premium	5.50	
Beta	1.00	
Re	**11.50**	

Sources: Company and BLS calculations

Financial tables

PROFIT & LOSS (Btm)	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Insurance premium	12,296	14,732	16,636	19,132	21,045
Less Life policy reserve	(6,230)	(7,670)	(8,318)	(9,566)	(10,522)
Net premium	**6,066**	**7,062**	**8,318**	**9,566**	**10,522**
Underwriting expenses	(6,254)	(7,173)	(8,024)	(9,418)	(10,518)
Profit from insurance	**(187)**	**(111)**	**295**	**147**	**4**
Revenue on investment	2,116	2,071	2,844	3,348	3,890
Other income/exp.	15	26	29	33	37
Net revenue	**1,943**	**1,987**	**3,167**	**3,529**	**3,932**
Operating expenses	(883)	(958)	(1,287)	(1,503)	(1,684)
EBIT	**1,061**	**1,028**	**1,881**	**2,026**	**2,247**
Minority interest	(0)	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(291)	(277)	(506)	(504)	(562)
Net profit (loss)	**770**	**752**	**1,375**	**1,521**	**1,685**
Reported EPS	0.77	0.75	1.15	1.27	1.40
Fully diluted EPS	0.77	0.75	1.15	1.27	1.40
Core net profit	**755**	**726**	**1,346**	**1,488**	**1,648**
Core EPS	0.75	0.73	1.12	1.24	1.37
EBITDA	**1,156**	**1,124**	**1,976**	**2,122**	**2,343**

KEY RATIOS	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Revenue growth (%)	22.6	2.2	59.4	11.4	11.4
Gross margin (%)	13.5	11.8	16.2	15.7	15.7
EBITDA margin (%)	8.0	6.7	10.1	9.4	9.4
Operating margin (%)	5.2	4.3	6.9	6.6	6.6
Net margin (%)	5.3	4.5	7.0	6.8	6.7
Core profit margin (%)	5.2	4.3	6.9	6.6	6.6
ROA (%)	1.7	1.5	2.2	2.0	1.9
ROE (%)	25.0	24.9	28.3	27.1	25.6
Commission/Insurance premium	14.5	13.5	15.0	15.0	15.0
Life policy Provision/insurance premium revenue	50.7	52.1	50.0	50.0	50.0
Cost/income	45.4	48.2	41.0	43.0	43.3
Total Loss ratio (benefit payment/Life policy reserve+Unpaid benefit)	11.4	10.7	9.3	9.3	8.9

BALANCE SHEET (Btm)	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Cash & Equivalent	**760**	**2,382**	**2,534**	**2,530**	**2,801**
Total investment in securities	40,009	44,858	55,676	66,850	78,450
Total net loans	1,502	1,801	2,078	2,231	2,638
Premises & equipment (Net)	261	325	450	470	539
Other assets	1,878	2,116	2,120	2,493	2,896
Total assets	**44,410**	**51,482**	**62,858**	**74,574**	**87,324**
Life policy reserve	34,222	41,892	50,210	59,776	70,298
Unpaid benefit to life policy	3,311	3,984	4,122	4,996	5,665
Premium received in advance	1,699	1,551	1,590	1,907	2,003
Other liabilities	2,098	1,036	2,071	2,277	2,770
Total liabilities	**41,330**	**48,463**	**57,993**	**68,956**	**80,736**
Paid-up capital	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	1,075	1,075	1,075
Retained earnings	1,805	1,744	2,590	3,343	4,313
Shareholders equity	**3,080**	**3,019**	**4,865**	**5,618**	**6,588**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**44,410**	**51,482**	**62,858**	**74,574**	**87,324**

CASH FLOW (Btm)	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Net income	770	752	1,375	1,521	1,685
Depreciation and amortization	101	106	112	117	123
Change in working capital	6,692	7,850	8,712	9,953	10,961
FX, non-cash adjustment & others	(1)	1,090	1,142	1,413	876
Cash flows from operating activities	**7,563**	**8,708**	**10,199**	**11,592**	**12,769**
Capex (Invest)/Divest	(27)	(113)	(125)	(20)	(69)
Others	(7,190)	(57,849)	(11,025)	(10,888)	(11,668)
Cash flows from investing activities	**(7,217)**	**(7,331)**	**(11,151)**	**(10,908)**	**(11,738)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	0	0	3,200	0	0
Dividend payment	(250)	(1,000)	(376)	(687)	(761)
Others	0	0	0	0	0
Cash flows from financing activities	**(250)**	**(1,000)**	**2,824**	**(687)**	**(761)**
Net change in cash	96	377	1,872	(3)	271
Free cash flow (Btm)	**7,536**	**8,595**	**10,073**	**11,572**	**12,700**
FCF per share (Bt)	**7.54**	**8.60**	**8.39**	**9.64**	**10.58**

Sources: Company and BLS's forecast

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	2Q08	3Q08	4Q08	1Q09	2Q09
Net insurance premium revenue	3,625	4,129	4,033	4,722	4,701
Less provision for life policy reserve	1,820	2,391	1,975	2,434	2,822
Revenue realization on premium	**1,804**	**1,738**	**2,058**	**2,289**	**1,879**
Underwriting expenses	1,735	1,831	2,044	1,999	2,032
Profit from insurance business	69	(93)	**15**	290	**(153)**
Net investment income	**599**	**648**	613	**635**	688
Gain on investment	**(11)**	**(60)**	(311)	**125**	41
Total revenue from investment	588	588	**302**	761	**729**
Other income	**1**	**15**	7	**7**	6
Total revenues	658	511	**323**	1,057	**582**
Total operating expenses	246	251	240	284	276
Exceptional items	0	0	0	0	0
EBT	**413**	**259**	83	**773**	307
Income tax	116.81	84	**8**	217	**73**
Minority Interest	0.00	0.00	0	0.00	0
Net profit	**296**	**176**	**75**	**556**	**233**
EPS	**0.30**	**0.18**	**0.08**	**0.56**	**0.23**
Core profit before tax	423	305	387	641	260
Core EPS	**0.42**	**0.30**	**0.39**	**0.64**	**0.26**

KEY RATIOS	2Q08	3Q08	4Q08	1Q09	2Q09
Premium/life policy reserve (%)	9.66	10.34	9.63	10.65	9.97
Life policy provision/Premium (%)	50.21	57.91	48.97	51.53	60.03
Total loss ratio (%)	10.79	11.77	12.59	9.92	10.59
Net margin (%)	12.01	7.81	3.16	16.63	9.47
Equity/Life policy reserve (%)	8.3	7.0	7.2	7.3	8.2
BV (Bt)	3.10	2.81	3.02	3.26	3.87
ROE (%)	38.2	25.0	10.0	68.3	24.1
ROA (%)	2.5	1.4	0.6	4.0	1.6
D/E (x)	14.2	16.6	16.1	15.9	14.1
Cost to Income (%)	37.3	49.2	74.3	26.9	47.3
Asset/Equity (%)	15.2	17.55	17.1	16.90	15.1

QUARTERLY BALANCE SHEET (Btm)	2Q08	3Q08	4Q08	1Q09	2Q09
Cash & Equivalent	**691**	**533**	**2,382**	**3,657**	**3,748**
Total investment in securities	42,694	44,859	44,858	47,135	50,131
Total net loans	1,600	1,635	1,798	1,825	1,848
Premises & equipment (Net)	284	293	325	321	319
Other assets	1,954	1,965	2,119	2,082	2,379
Total assets	**47,222**	**49,285**	**51,482**	**55,021**	**58,425**
Life policy reserve	37,526	39,917	41,892	44,325	47,147
Unpaid benefit to life policy	3,662	3,842	3,984	4,106	4,333
Premium received in advance	1,650	1,594	1,551	1,528	1,516
Other liabilities	1,285	1,125	1,036	1,805	1,555
Total liabilities	**44,123**	**46,478**	**48,463**	**51,765**	**54,551**
Paid-up capital	1,000	1,000	1,000	1,000	1,000
Share premium	275	275	275	275	275
Retained earnings	712	879	950	1,479	1,565
Shareholders equity	**3,099**	**2,808**	**3,019**	**3,255.96**	**3,873.78**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**47,222**	**49,285**	**51,482**	**55,021**	**58,425**

Sources: Company data, Bualuang Research

Appendix

Glossary and terms

		Definition
A	Net assets	This captures the net shareholders' funds in the life business.
B	Value of in-force (VIF)	This is the net present value of the expected profit from each policy currently in-force, derived based on actuarial projections of the likely cashflow pattern for each policy.
A+B	Embedded value (EV)	In effect, this is the fair value of the company on a closed book basis, ie, assuming that there will be no future new businesses 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).
D	Multiple of VNB	This is similar to a P/E multiple for industrials, essentially capturing the value of all future new businesses.
A+B+D	Appraisal value/Economic value	This is the theoretical fair value of the life insurance company based on actuarial projections of expected future profits.
	Loss ratio	This is the ratio of claims / premiums, and measures the loss per Baht of premium collected — excluding expenses
	Expense ratio	These are expenses / premiums, and measure expenses incurred per Baht of premium collected

Life insurance	is a contract between the policy owner and the insurer, where the insurer agrees to pay a sum of money upon the occurrence of the policy owner's death. In return, the policy owner (or policy payer) agrees to pay a stipulated amount called a premium at regular intervals. Insured events that may be covered include Death and Accidental Death.
Term-life insurance	provides for life insurance coverage for a specified term of years for a specified premium. The policy does not accumulate cash value. Term is generally considered "pure" insurance, where the premium buys protection in the event of death and nothing else.
Permanent life insurance	is life insurance that remains in force until the policy matures (pays out), unless the owner fails to pay the premium when due (the policy expires). The policy cannot be canceled by the insurer for any reason except fraud in the application, and that cancellation must occur within a period of time defined by law (usually two years). Permanent insurance builds a cash value that reduces the amount at risk to the insurance company and thus the insurance expense over time. This means that a policy with a million dollars face value can be relatively inexpensive to a 70 year old because the actual amount of insurance purchased is much less than one million dollars. The owner can access the money in the cash value by withdrawing money, borrowing the cash value, or surrendering the policy and receiving the surrender value. The three basic types of permanent insurance are whole life, universal life, and endowment.
Whole life coverage	provides for a level premium, and a cash value table included in the policy guaranteed by the company. The primary advantages of whole life are guaranteed death benefits, guaranteed cash values, fixed and known annual premiums, and mortality and expense charges will not reduce the cash value shown in the policy. The primary disadvantages of whole life are premium inflexibility, and the internal rate of return in the policy may not be competitive with other savings alternatives. Riders are available that can allow one to increase the death benefit by paying additional premium. The death benefit can also be increased through the use of policy dividends. Dividends cannot be guaranteed and may be higher or lower than historical rates over time. Premiums are much higher than term insurance in the short-term, but cumulative premiums are roughly equal if policies are kept in force until average life expectancy.
Universal life coverage	is a relatively new insurance product intended to provide permanent insurance coverage with greater flexibility in premium payment and the potential for a higher internal rate of return. A universal life policy includes a cash account. Premiums increase the cash account. Interest is paid within the policy (credited) on the account at a rate specified by the company. This rate has a guaranteed minimum but usually is higher than that minimum. Mortality charges and administrative costs are charged against (reduce) the cash account. The surrender value of the policy is the amount remaining in the cash account less applicable surrender charges, if any.

Limited pay	Another type of permanent insurance is Limited-pay life insurance, in which all the premiums are paid over a specified period after which no additional premiums are due to keep the policy in force. Common limited pay periods include 10-year, 20-year, and paid-up at age 65.
Endowment	are policies in which the cash value built up inside the policy, equals the death benefit (face amount) at a certain age. The age this commences is known as the endowment age. Endowments are considerably more expensive (in terms of annual premiums) than either whole life or universal life because the premium paying period is shortened and the endowment date is earlier.
Riders	are modifications to the insurance policy added at the same time the policy is issued. These riders change the basic policy to provide some feature desired by the policy owner. A common rider is accidental death, which used to be commonly referred to as "double indemnity", which pays twice the amount of the policy face value if death results from accidental causes, as if both a full coverage policy and an accidental death policy were in effect on the insured. Another common rider is premium waiver, which waives future premiums if the insured becomes disabled.
Single premium whole life	is a policy with only one premium which is payable at the time the policy is issued.
Group life insurance	is term insurance covering a group of people, usually employees of a company or members of a union or association. Individual proof of insurability is not normally a consideration in the underwriting. Rather, the underwriter considers the size and turnover of the group, and the financial strength of the group. Contract provisions will attempt to exclude the possibility of adverse selection. Group life insurance often has a provision that a member exiting the group has the right to buy individual insurance coverage.
Protection policy	policies - designed to provide a benefit in the event of specified event, typically a lump sum payment.
Investment policy	policies - where the main objective is to facilitate the growth of capital by regular or single premiums.

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70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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.

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.

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