BUALUANG SECURITIES

5 November 2009

Bangkok Life Assurance

Growth momentum sustained

Insurance
Overweight

COMPANY UPDATE

BUALUANG RESEARCH

Suwat Bumrungchatudom
suwat@bualuang.co.th
+662 618 1341

BUY (maintained)

Target price to Bt18.00
Price (04/11/09): Bt14.60
BLA TB / BLA.BK

Investment thesis: BLA has successfully built its market share of total premiums up from 6.3% in FY08 to 7.7% for 8M09. The capital increase brought about by the IPO boosted its capital ratio from 8.2% at end-June to 14% at end-Sept, enabling rapid growth, led by bancassurance sales. We rate BLA a BUY with a YE09 target price of Bt18 (based on YE09 economic value). Our rating is premised on: 1) a fast-growing industry, 2) strong sales expansion, driven by bancassurance, 3) solid and consistent revenue streams from invested assets, 4) financial strength, 5) support from major shareholders (BBL, Nippon Life Insurance, Limsong Group and Bangkok Insurance).

Operational slowdown in 3Q09: After achieving about 8% market share of total premiums in 1H09 against 6.8% in FY08, BLA has endeavored to rebalance sales channel management by scaling back the Bancassurance sales effort (which achieved its 1H09 target) and increasing sales through agents. Thus, its 3Q09 first-year premium (FYP) revenue is estimated at Bt1.25bn, down 25% QoQ but up 77% YoY. We expect that 3Q09 total premiums slipped 3.3% QoQ (but rose 20% YoY) to Bt4.6bn—a 6.9% market share.

Investment yield dipped to 5.2%: BLA is expected to post an investment yield of 5.2% for 3Q09, down slightly from the 5.3% reported for 1Q09 and 5.5% in 2Q09. It will take some time to find enough appropriate high-yielding assets to re-invest the cash injection from the IPO and total insurance premiums in 3Q09. We estimate net investment income (excluding investment gains) of Bt690m, flat QoQ but up 6.3% YoY.

Expect moderate profit growth: We forecast 3Q09 earnings of Bt260m, up 12% QoQ and 48% YoY. The growth is attributable largely to lower QoQ provisions on the life policy reserve. We calculate that BLA set provisions for its life policy reserve of Bt2.7bn in 3Q09 (equal to about 58% of total premiums), down 6% QoQ but up 11% YoY. The lower provision-setting in 3Q09 is due to the fact that BLA already has a very high invested asset/life policy reserve of 120%, which is more than adequate for the firm to cover all the foreseeable liabilities of insured policyholders.

Key Ratios & Statistics

Market cap	Bt17.52bn
12-mth price range	Bt13.50/Bt16.20
# of shares (m)	1,000.0

Share price perf. (%)	1M	3M	12M
Relative to SET	1.8		
Absolute	(2.7)		

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
BLS/Consensus (x)	n.m.	n.m.	n.m.	n.m.
EPS Consensus (Bt)	n.m.	n.m.	n.m.	n.m.
EPS growth (%)	-2.4	52.4	10.7	10.8
PER (x)	19.4	12.7	11.5	10.4
EV/EBITDA (x)	18.46	11.85	11.52	10.94
PBV (x)	4.8	3.6	3.1	2.7
Dividend (Bt)	0.4	0.6	0.6	0.7
Dividend yield (%)	2.6	3.9	4.3	4.8
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

CG Rating - 2008 N/A

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.

Figure 1: 3Q09 earnings preview

Consolidated BLA	3Q09E	2Q09	%QoQ	3Q08	%YoY	9M09	9M08	% YoY
Net insurance premium revenue	4,610	4,701	-1.9	4,129.2	11.6	14,033	10,699	31.2
Less provision for life policy reserve	2,660	2,822	-5.7	2,391.1	11.2	7,915	5,695	39.0
Revenue realization on premium	**1,950**	**1,879**	**3.8**	**1,738.1**	**12.2**	**6,118**	**5,004**	**22.3**
Underwriting expenses	2,019	2,032	-0.6	1,830.7	10.3	6,050	5,129	17.9
Profit from insurance business	(69)	(153)	-54.6	-92.6	-25.3	68	-125	-154.3
Net investment income	690	688	0.2	648.4	6.3	2,013	1,817	10.8
Gain on investment	20	41	-51.0	-60.2	-133.2	186	-47	-493.1
Total revenue from investment	710	729	-2.7	588.2	20.6	2,199	1,770	24.3
Other income	**5**	**6**	**-11.8**	**14.9**	**-66.5**	**17**	**19**	**-9.9**
Total revenues	645	582	10.8	510.5	26.4	2,285	1,663	37.3
Total operating expenses	291	276	5.6	251.1	15.9	851	718	18.5
EBT	354	307	15.6	259.4	36.6	1,434	945	51.7
Income tax	94	73	27.8	83.8	12.0	384	269	42.9
Net profit	260	233	11.7	175.6	48.3	1,050	676	55.2
EPS	**0.22**	**0.19**	**11.7**	**0.15**	**48.3**	**0.87**	**0.56**	**55.2**
Investment assets	**54,936**	**50,131**	**9.6**	**44,859**	**22.5**	**54,936**	**44,859**	**22.5**
Total Assets	63,395	58,425	8.5	49,285	28.6	63,395	49,285	28.6
Life policy reserve	49,097	47,147	4.1	39,917	23.0	49,097	39,917	23.00
Premium/life policy reserve (%)	9.39	9.97	nm	10.34	nm	9.53	8.93	nm
Life policy provision/Premium (%)	57.70	60.03	nm	57.91	nm	56.40	53.23	nm
Total loss ratio (%)	10.00	10.59	nm	11.77	nm	8.04	10.61	nm
ROAE (%)	15.24	24.07	nm	25.02	nm	20.48	32.13	nm
ROAA (%)	1.64	1.60	nm	1.43	nm	2.21	1.83	nm
D/E (x)	8.3	14.1	nm	16.6	nm	8.3	16.6	nm
Cost to income %	45.1	47.3	nm	49.2	nm	37.2	43.2	nm

Sources: Company data & Bualuang Research

Figure 2: Movement of Life policy reserve and invested assets and BLA's total premium market share in 7M09

Sources: Company data, Bualuang Research

Figure 3: Equity, life policy reserve and risk based capital ratio (%) and BLA's asset and growth

Sources: Company data, Bualuang Research

Recommendation and valuation

Reiterate BUY with target price of Bt18.00: We expect BLA to sustain strong earnings growth with a high life policy reserve ratio of 120%. Currently, bancassurance contributes about 50% of the firm's total FYPs, up from 33% in FY08. We expect this channel to drive FY09-10 revenue and profit growth, as it entails lower costs than sales through agents (the other main channel). Given our bullish view on the prospects for the life insurance industry, we forecast that BLA's profit will expand 52% YoY in FY09 and 11% YoY in FY10 to Bt1.38bn and Bt1.52bn, respectively. Additionally, the firm's high capital ratio of 14% will enable it to expand business without need for a cash call in the foreseeable future. BLA trades at a cheap FY09 PER of 12.7x, much lower than the regional average of 32x. We calculate the stock's economic value at Bt18, making for an implied PER target of 15.6x. With 23% upside to our YE09 target price, we maintain our BUY rating.

Figure 5: 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	5.88	16.9	15.56	5.27	4.86	33.0	33.1	5.07	5.31
Axa Asia Pacific Holding	AXA AU	4.16	15.2	13.96	2.09	1.97	14.3	14.5	4.52	4.93
Cathay Financial Holding	2882 TT	59.30	41.8	29.55	3.75	3.47	11.8	12.0	0.54	1.27
China Life Insurance	601628 CH	31.18	42.0	33.60	5.39	5.28	12.9	14.5	1.18	1.47
China Pacific Insurance	601601 CH	26.50	55.9	90.0	3.71	3.39	6.0	7.6	0.57	0.77
Insurance Australia Group	IAG AU	3.72	24.0	13.43	1.71	1.72	6.5	12.2	3.01	4.89
Ping An Insurance	601318 CH	60.50	47.4	40.44	5.00	4.58	10.6	11.2	0.77	1.02
Bangkok Life Assurance	BLA	14.60	12.7	11.52	3.60	3.12	28.3	27.1	3.92	4.34
Simple average			**32.0**	**31.0**	**3.8**	**3.6**	**15.4**	**16.5**	**2.4**	**3.0**

Sources: Bualuang estimates, Bloomberg and Reuters

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 data, Bualuang Research estimates

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

BUALUANG SECURITIES PUBLIC COMPANY LIMITED – DISCLAIMER

BUALUANG SECURITIES PUBLIC COMPANY LIMITED (BLS) is a subsidiary of BANGKOK BANK PUBLIC COMPANY LIMITED (BBL). This document is produced based upon sources believed to be reliable but their accuracy, completeness or correctness is not guaranteed. The statements or expressions of opinion herein were arrived at after due and careful consideration to use as information for investment. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information shall be at the sole discretion and risk of the user.

This research report was prepared by Bualuang Securities Public Company Limited and refers to research prepared by Morgan Stanley. Morgan Stanley does not warrant or guarantee the accuracy or completeness of its research reports. Morgan Stanley reserves copyright and other proprietary rights in the material reproduced in this report. Morgan Stanley is under no obligation to inform Bualuang Securities or you if the views or information referred to or reproduced in this research report change.

Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not base on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
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.

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

SECTOR RECOMMENDATIONS

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

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

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