



## EARNINGS RESULTS

## Bangkok Life Assurance

BLATB / BLA.BK

10 November 2016

## Third-quarter result missed on bigger provisioning due to interest risk

## Profit for 3Q16 was 23% below our numbers

BLA posted 3Q16 earnings of Bt612m, a turnaround from loss of Bt786m in the same period last year but down 93% QoQ. The result was 23% below our forecast due to the bigger loss ratio than modeled. We forecast its 3Q16 loss ratio was 68% (against its real number of 77%, which included reserve for interest rate risk). The 9M16 earnings leaped 71% to Bt3.1bn YoY, which was 72.5% of our current FY16 earnings projection.

## Results highlights

Net premium revenue rose 8% YoY and 21% QoQ to Bt9bn. The premium was 11% over our forecast. The firm set provisions of Bt6.9bn for its life-policy reserve (loss ratio and provision for interest rate [the so-called LAT reserve] of Bt840m) in 3Q16, equal to 77% of total premiums, down from 86.5% in the same period last year and from a minus of 81.02% in previous quarter (caused by a reverse of its reserve of Bt9.5bn from LAT to revenue in 2Q16).

ROI rose to 5.6% in 3Q16 up from 4.9% in the same period last year but down from 6.3% QoQ. Revenue from investments increased 3% QoQ and YoY to Bt2.8bn.

## Outlook

We expect BLA to deliver earnings growth of 90% QoQ but a retreat of 48% YoY. Note that the firm underwent an accounting policy change in 4Q15 about provisions for all rider products (as one-time gains). By stripping out such an impact, we expect BLA to have 4Q16 growth of 15% YoY.

## What's changed?

We have maintained our FY16 and FY17 earnings forecasts of Bt4.3bn and Bt4.9bn, respectively.

## Recommendation

We view that BLA is well positioned to have strong FYP for FY16 as planned from aggressive product sales via BBL and nationwide branches and solid reserves for interest rate risk (LAT reserve of Bt1.7bn) to shelter its downside risk if long-term bond yields plummet at a fast rate to 1.4% again. These bring BLA's FY16 result to turn into normal profit of Bt4.3bn before bouncing another 14% in FY17 to Bt4.9bn. Given the favorable outlook for a better economy and rising long-term bond yield trends, we reiterate our BUY rating for BLA with its YE17 target price of Bt58.00, (derived from new business [VNB] of Bt20.04 and Embedded Value of Bt37.96).

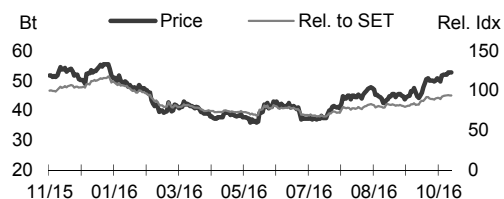
## Sector: Insurance – OVERWEIGHT

Rating: BUY

Target Price: Bt58.00

Price (9 November 2016): Bt50.50

## Price chart

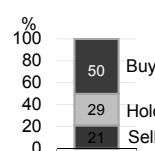


Share price perf. (%)	1M	3M	12M
Relative to SET	9.3	24.9	(9.9)
Absolute	12.8	22.4	(1.9)

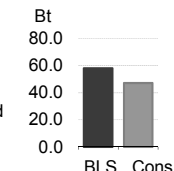
## Key statistics

Market cap	Bt86.2bn	USD2.5bn
12-mth price range	Bt35.3/Bt55.8	
12-mth avg daily volume	Bt107m	USD3.0m
# of shares (m)	1,706	
Est. free float (%)	43.8	
Foreign limit (%)	25.0	

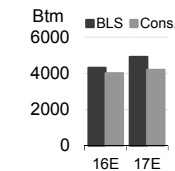
## Consensus rating



## BLS Target price vs. Consensus



## BLS earnings vs. Consensus



## Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Total rev (Btm)	55,589	57,182	66,228	71,251
Net profit (Btm)	4,108	4,300	4,900	5,600
Fully diluted EPS (Bt)	2.41	2.52	2.87	3.28
EPS growth (%)	+55.0%	+4.7%	+14.0%	+14.3%
PER (x)	21.6	20.7	18.1	15.9
EV/EBITDA (x)	16.1	17.6	16.6	15.8
PBV (x)	2.45	2.24	2.00	2.06
Dividend (Bt)	0.64	0.66	0.86	0.99
ROA (%)	1.6	1.5	1.4	1.5
Net gearing (x)	8.0	7.5	7.7	7.7
Total loss ratio (%)	70.4	73.0	70.0	70.0
Total premium Mkt (%)	10.0	10.0	10.0	11.0

## CG/Anti-Corruption



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## BLA: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Insurance premium	51,172	44,175	44,062	52,933	56,109
Less Life policy reserve	(42,106)	(31,114)	(32,165)	(37,053)	(39,276)
<b>Net premium</b>	<b>9,066</b>	<b>13,061</b>	<b>11,897</b>	<b>15,880</b>	<b>16,833</b>
Underwriting expenses	(14,243)	(17,473)	(18,139)	(21,527)	(23,099)
<b>Profit from insurance</b>	<b>(5,177)</b>	<b>(4,412)</b>	<b>(6,243)</b>	<b>(5,647)</b>	<b>(6,266)</b>
Revenue on investment	10,255	11,414	13,120	13,295	15,142
Other income/exp.	48	64	450	541	573
<b>Net revenue</b>	<b>5,126</b>	<b>7,066</b>	<b>7,327</b>	<b>8,189</b>	<b>9,449</b>
Operating expenses	(2,033)	(2,179)	(2,148)	(2,387)	(2,625)
<b>EBIT</b>	<b>3,093</b>	<b>4,887</b>	<b>5,179</b>	<b>5,803</b>	<b>6,824</b>
Minority interest	0	0	(11)	(12)	(13)
Extra items	0	0	0	0	0
Income tax	(443)	(779)	(869)	(891)	(1,211)
<b>Net profit (loss)</b>	<b>2,650</b>	<b>4,108</b>	<b>4,300</b>	<b>4,900</b>	<b>5,600</b>
Reported EPS	1.55	2.41	2.52	2.87	3.28
<b>Fully diluted EPS</b>	<b>1.55</b>	<b>2.41</b>	<b>2.52</b>	<b>2.87</b>	<b>3.28</b>
<b>Core net profit</b>	<b>2,602</b>	<b>4,044</b>	<b>3,850</b>	<b>4,359</b>	<b>5,027</b>
Core EPS	1.52	2.37	2.25	2.55	2.94
<b>EBITDA</b>	<b>3,189</b>	<b>4,983</b>	<b>5,275</b>	<b>5,898</b>	<b>6,920</b>

### KEY RATIOS

Revenue growth (%)	31.9	(13.7)	(0.3)	20.1	6.0
Gross margin (%)	8.3	12.7	12.7	12.3	13.2
EBITDA margin (%)	5.2	9.0	9.2	8.8	9.6
Operating margin (%)	4.2	7.3	6.7	6.6	7.1
Net margin (%)	4.3	7.4	7.5	7.3	7.8
Core profit margin (%)	4.2	7.3	6.7	6.6	7.1
ROA (%)	1.2	1.6	1.5	1.4	1.5
ROE (%)	10.4	15.2	12.5	12.7	13.0
Commission/Insurance premium	9.3	15.0	7.0	10.5	10.0
Life policy Provision/insurance premium r	82.3	70.4	73.0	70.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	114.1	114.9	119.0	115.2	115.8

### BALANCE SHEET (Btm)

Cash & Equivalent	5,708	7,102	2,706	6,477	6,782
Total investment in securities	198,238	227,584	270,825	311,449	353,171
Total net loans	4,735	6,139	6,753	7,382	7,909
Premises & equipment (Net)	389	547	558	569	581
Other assets	6,520	8,204	12,170	15,609	14,330
<b>Total assets</b>	<b>215,590</b>	<b>249,576</b>	<b>293,012</b>	<b>341,487</b>	<b>382,772</b>
Life policy reserve	177,435	208,383	240,548	280,251	319,527
Unpaid benefit to life policy	1,489	470	1,292	3,706	5,877
Premium received in advance	2,239	459	500	550	556
Other liabilities	8,851	13,272	16,322	18,521	13,790
<b>Total liabilities</b>	<b>190,013</b>	<b>222,585</b>	<b>258,662</b>	<b>303,029</b>	<b>339,750</b>
Paid-up capital	1,698	1,704	1,704	1,704	1,704
Share premium	3,091	3,220	3,295	3,295	3,295
Retained earnings	20,787	22,017	29,351	33,459	38,024
<b>Shareholders equity</b>	<b>25,576</b>	<b>26,990</b>	<b>34,350</b>	<b>38,458</b>	<b>43,023</b>
Minority interests	0	0	0	0	0
<b>Total Liab.&amp;Shareholders' equity</b>	<b>215,590</b>	<b>249,575</b>	<b>293,012</b>	<b>341,487</b>	<b>382,772</b>

### CASH FLOW (Btm)

Net income	2,650	4,108	4,300	4,900	5,600
Depreciation and amortization	143	150	157	165	173
Change in working capital	39,598	30,708	32,887	37,790	40,327
FX, non-cash adjustment & others	805	806	807	808	809
<b>Cash flows from operating activities</b>	<b>42,390</b>	<b>34,966</b>	<b>37,345</b>	<b>42,855</b>	<b>46,100</b>
Capex (Invest)/Divest	(126)	(247)	(11)	(11)	(11)
Others	(49,777)	(39,023)	(43,437)	(40,027)	(41,153)
<b>Cash flows from investing activities</b>	<b>(36,529)</b>	<b>(32,407)</b>	<b>(43,448)</b>	<b>(40,038)</b>	<b>(41,165)</b>
Debt financing (repayment)	0	0	0	0	0
Equity financing	0	0	0	0	0
Dividend payment	(678)	(1,325)	(1,090)	(792)	(1,035)
Others	(49,777)	(39,023)	(43,437)	(40,027)	(41,153)
<b>Cash flows from financing activities</b>	<b>(678)</b>	<b>(1,325)</b>	<b>(1,090)</b>	<b>(792)</b>	<b>(1,035)</b>
Net change in cash	5,183	1,235	(7,194)	2,026	3,900

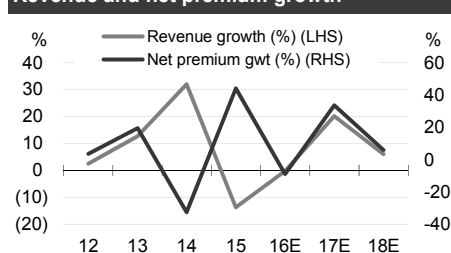
### Free cash flow (Btm)

<b>FCF per share (Bt)</b>	<b>24.7</b>	<b>20.3</b>	<b>21.9</b>	<b>25.1</b>	<b>27.0</b>
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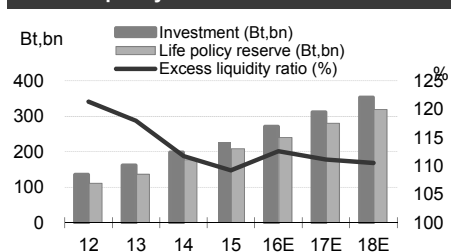
### Insurance data

	2014	2015	2016E	2017E	2018E
FYP (Btm)	8,928	7,707	7,687	9,235	9,789
RYP (Btm)	37,379	32,268	32,185	38,665	40,985
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	51,172	44,175	44,062	52,933	56,109
FYP mkt (%)	7.8	9.7	8.4	7.6	7.2
Total premium Mkt (%)	7.7	8.9	9.6	8.7	8.9

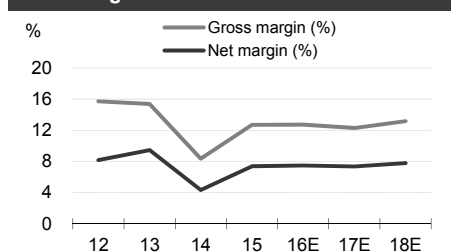
### Revenue and net premium growth



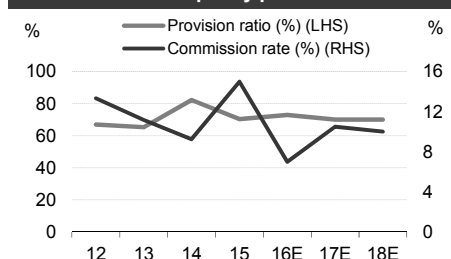
### Excess liquidity



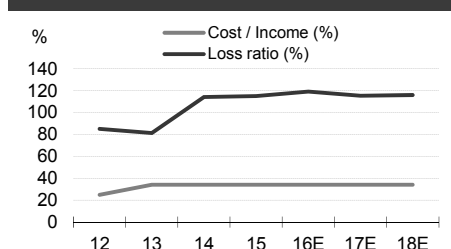
### Profit margins



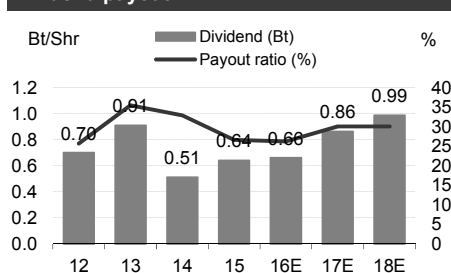
### Commission and life policy provision ratios



### Cost/Income and Loss ratios



### Dividend payout



## BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm )	3Q15	4Q15	1Q16	2Q16	3Q16
Net insurance premium revenue	8,368	12,844	12,856	7,433	9,001
Less provision for life policy reserve	7,241	8,862	17,848	(6,037)	6,936
Revenue realization on premium	1,127	3,982	(4,993)	13,470	2,065
Underwriting expenses	4,469	3,131	6,564	5,250	4,558
<b>Profit from insurance business</b>	<b>(3,342)</b>	<b>850</b>	<b>(11,556)</b>	<b>8,220</b>	<b>(2,492)</b>
Net investment income	2,715	2,478	2,716	2,721	2,797
Gain on investment	91	29	555	1,207	758
<b>Total revenue from investment</b>	<b>2,806</b>	<b>2,507</b>	<b>3,270</b>	<b>3,928</b>	<b>3,555</b>
Other income	13	18	138	63	24
Total revenues	(523)	3,375	(8,148)	12,211	1,087
Total operating expenses	551	559	541	539	433
Exceptional items	0	0	0	0	0
EBT	(1,074)	2,816	(8,689)	11,671	654
<b>Income tax</b>	<b>(287)</b>	<b>531</b>	<b>(1,801)</b>	<b>2,285</b>	<b>45</b>
Minority Interest	(0)	0	0	(6)	(3)
<b>Net profit</b>	<b>(786)</b>	<b>2,285</b>	<b>(6,888)</b>	<b>9,392</b>	<b>612</b>
<b>EPS</b>	<b>(0)</b>	<b>1</b>	<b>(4)</b>	<b>6</b>	<b>0</b>
Core profit before tax	(1,177)	2,769	(9,382)	10,402	(129)
<b>Core EPS</b>	<b>(1)</b>	<b>2</b>	<b>(6)</b>	<b>6</b>	<b>(0)</b>

### KEY RATIOS

Premium/life policy reserve (%)	17	25	22	13	15
Life policy provision/Premium (%)	87	69	139	(81)	77
Claim/life policy (%)	25	27	20	21	21
ROI (%)	5	4	5	6	6
Net margin (%)	(7)	15	(43)	83	5
Equity/Life policy reserve (%)	14	13	13	10	14
BV (Bt)	15	16	14	19	19
ROE (%)	(11)	36	(102)	155	8
ROA (%)	(1)	4	(11)	14	1
D/E (x)	8	9	8	10	7
Cost to Income (%)	147	98	194	(3)	133

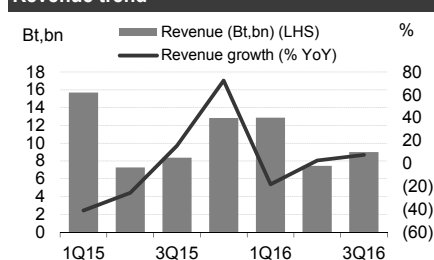
QUARTERLY BALANCE SHEET (Btm )	3Q15	4Q15	1Q16	2Q16	3Q16
Cash & Equivalent	461	7,102	5,590	8,894	9,035
Total investment in securities	226,543	227,584	240,689	242,851	247,149
Total net loans	5,683	6,139	6,463	6,674	6,969
Premises & equipment (Net)	534	547	572	1,107	1,121
<b>Other assets</b>	<b>9,097</b>	<b>8,204</b>	<b>13,003</b>	<b>8,670</b>	<b>8,904</b>
Total assets	242,317	249,576	266,318	268,196	273,178
Life policy reserve	199,686	208,383	234,972	228,748	235,755
Unpaid benefit to life policy	1,612	470	699	682	719
Premium received in advance	723	0	0	0	0
<b>Other liabilities</b>	<b>15,024</b>	<b>13,732</b>	<b>6,395</b>	<b>6,275</b>	<b>4,547</b>
Total liabilities	217,045	222,585	242,065	235,705	241,021
Paid-up capital	1,200	1,704	1,704	1,705	1,705
Share premium	2,700	3,220	3,295	3,307	3,320
<b>Retained earnings</b>	<b>15,176</b>	<b>22,066</b>	<b>19,253</b>	<b>27,468</b>	<b>27,124</b>
Shareholders equity	25,272	26,990	24,253	32,480	32,149
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>7</b>

Insurance data	3Q15	4Q15	1Q16	2Q16	3Q16
FYP (Btm)	2,538	3,821	1,805	1,331	na
RYP (Btm)	5,398	6,097	10,996	5,628	na
SP (Btm)	501	3,070	612	669	na
Total premium (Btm)	8,437	12,988	13,412	7,629	na
FYP+SP mkt (%)	7.5	14.1	5.9	5.0	na
Total premium Mkt (%)	6.6	8.9	9.5	5.6	na

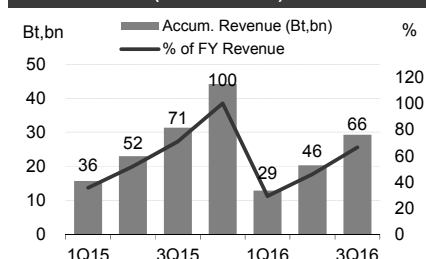
### Company profile

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

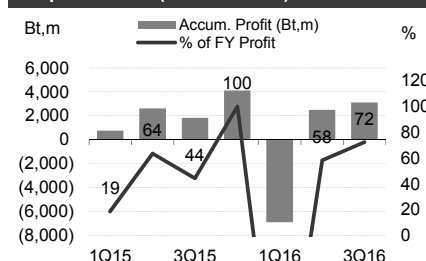
### Revenue trend



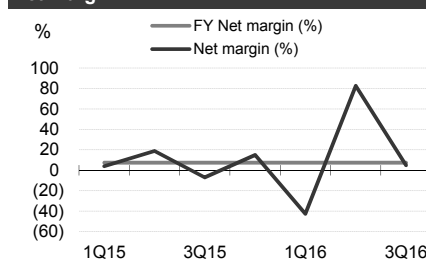
### Revenue trend (accumulated)



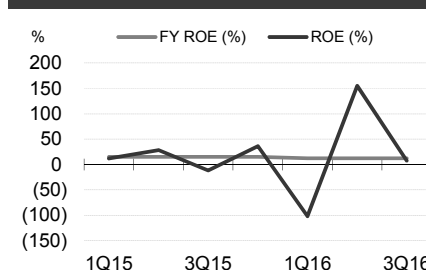
### Net profit trend (accumulated)



### Net margin



### ROE



**Figure 1 : 3Q16 results**

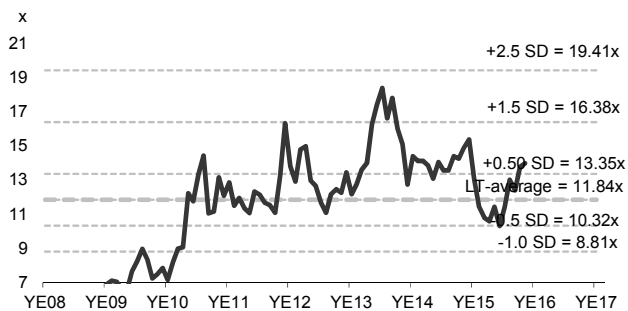
FY Ended 31 Dec (Btm)	3Q16	3Q15	YoY %	2Q16	QoQ %	9M16	9M15	YoY %	
<b>Income Statement</b>									
Net insurance premium revenue	9,001	8,368	8	7,433	21	29,290	31,331	-7	
Less provision for life policy res	6,936	7,241	-4	(6,037)	-215	18,748	22,252	-16	
Revenue realization on premiur	2,065	1,127	83	13,470	-85	10,543	9,079	16	• Net premiums grew YoY and QoQ
Underwriting expenses	4,558	4,469	2	5,250	-13	16,372	14,342	14	
Profit from insurance business	(2,492)	(3,342)	-25	8,220	-130	(5,829)	(5,263)	11	
Net investment income	2,797	2,715	3	2,721	3	8,234	7,693	7	
Gain on investment	758	91	735	1,207	-37	2,520	1,214	108	• Loss ratio declined YoY
Other income	24	13	82	63	-62	225	47	nm	
<b>Total revenues</b>	<b>1,087</b>	<b>(523)</b>	<b>nm</b>	<b>12,211</b>	<b>-91</b>	<b>5,150</b>	<b>3,691</b>	<b>40</b>	• Investment income jumped YoY and QoQ
Total operating expenses	433	551	-21	539	-20	1,513	1,620	-7	
EBT	654	(1,074)	-161	11,671	-94	3,636	2,071	76	
Income tax	45	(287)	-116	2,285	-98	529	248	114	
<b>Net profit</b>	<b>612</b>	<b>(786)</b>	<b>-178</b>	<b>9,392</b>	<b>-93</b>	<b>3,116</b>	<b>1,823</b>	<b>71</b>	
<b>EPS</b>	<b>0.36</b>	<b>(0.46)</b>	<b>-178</b>	<b>5.51</b>	<b>-93</b>	<b>1.83</b>	<b>1.07</b>	<b>71</b>	
<b>Key ratios</b>									
Premium/life policy reserve (%)	15.3	16.8		13.0		5.1	17.7		
Life policy provision/Premium (%)	77.1	86.5		(81.2)		64.0	71.0		
ROI (%)	5.6	4.9		6.3		5.8	5.4		
Tax rate (%)	6.8	26.7		19.6		14.5	12.0		
Net margin (%)	4.9	(7.0)		82.7		14.6	5.2		
D/E (x)	7.3	7.7		10.0		7.3	7.7		
Cost to Income (%)	132.5	146.5		(3.3)		107.8	67.5		
Asset/Equity (%)	8.3	8.7		11.0		8.3	8.7		
<b>Balance Sheet</b>									
Cash & Equivalent	9,035	461	1,862	8,894	2				
<b>Total assets</b>	<b>273,178</b>	<b>242,317</b>	<b>13</b>	<b>268,196</b>	<b>2</b>				
Unpaid benefit to life policy	719	1,612	(55)	682	6				
Premium received in advance	0	723	100	0	0				
<b>Total liabilities</b>	<b>241,021</b>	<b>217,045</b>	<b>11</b>	<b>235,705</b>	<b>2</b>				
Retained earnings	27,124	15,176	79	27,468	(1)				
<b>Shareholders equity</b>	<b>32,149</b>	<b>25,272</b>	<b>27</b>	<b>32,480</b>	<b>(1)</b>				
Minority interests	7	0	nm	11	nm				
BV (Bt)	18.9	14.8	28	19.1	(1)				• ROI rose YoY

Sources: Company data, Bualuang Research estimates

## Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Ping An Insurance (Group)	601318 CH	CNY34.7	93,960	10.7	10.0	9.9	7.6	1.6	1.4	16.3	15.8	1.6	1.7
China Life Insurance	601628 CH	CNY21.8	85,148	28.7	22.3	-37.1	30.2	1.9	1.8	7.6	9.5	1.4	1.7
China Pacific Insurance (Group)	601601 CH	CNY29.8	37,436	20.4	17.9	-25.9	15.3	2.0	1.8	10.0	11.0	2.4	2.4
T&D Holdings	8795 JP	JPY1,167.0	7,508	9.6	9.0	9.0	6.8	0.6	0.5	5.9	6.4	2.7	3.0
Bangkok Life Assurance	BLA TB	THB50.50	2,458	20.1	17.6	4.7	14.0	2.5	2.2	12.5	12.7	1.3	1.7
Thaire Life Assurance	THREL TB	THB9.60	164	14.8	13.7	0.3	7.7	4.1	3.8	29.0	28.9	5.2	5.6
Simple average				17.4	15.1	-6.5	13.6	2.1	1.9	13.5	14.0	2.4	2.7

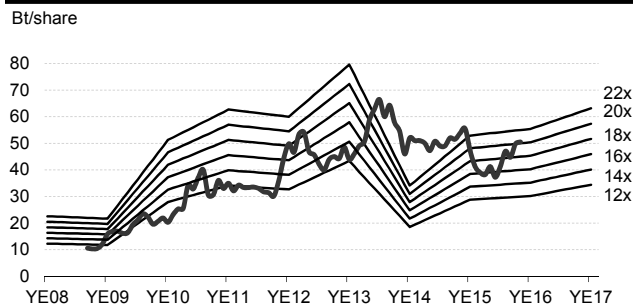
PER band versus SD (next 12 months)



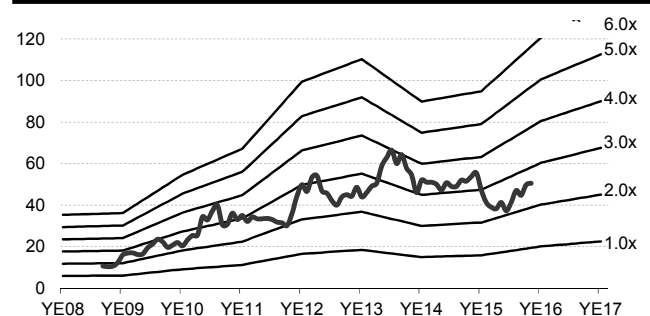
PBV band versus SD (next 12 months)



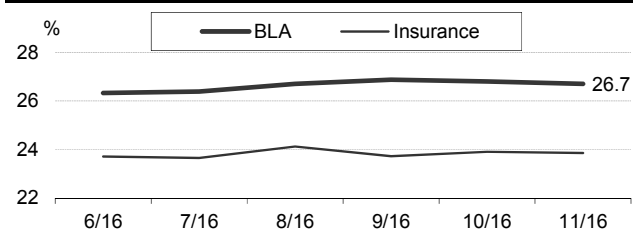
PER band and share price



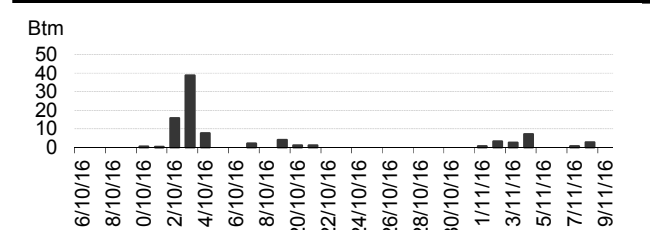
PBV band and share price



Foreign holdings



Short selling activities during past four weeks



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	BANPU, BPP

### CG Rating

#### Score Range

90 – 100  
80 – 89  
70 – 79  
60 – 69  
50 – 00359  
Below 50

#### Score Range



No logo given

#### Description

Excellent  
Very Good  
Good  
Satisfactory  
Pass  
N/A

### Anti-Corruption Progress Indicator

#### Level

5  
4  
3B  
3A  
2  
1  
Partially progress  
No progress

#### Description

Extended  
Certified  
Established by Commitment and Policy  
Established by Declaration of Intent  
Declared  
Committed  
Partially progress  
No progress

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## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

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

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

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

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

### SECTOR RECOMMENDATIONS

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

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

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