

Bangkok Life Assurance

BLA TB / BLA.BK

10 August 2016

Outcome for 2Q16 surpasses model from big reverse on provisions

Profit for 2Q16 was 124% over our number

BLA posted a huge 2Q16 profit of Bt9.4bn against the big loss of Bt6.9bn last quarter (but up 409% YoY). The result was substantially over our profit forecast of Bt4.2bn and the Bloomberg consensus' profit forecast of Bt4.5bn, attributable to bigger reverse on the liability adequacy test (LAT) for the lower-than-assumed long-term bond yield (BLA reversed the provision of Bt9.5bn in 2Q16; we had projected merely Bt5bn).

Results highlights

Net total premiums for the quarter inched up 2% YoY but were down 42% QoQ to Bt7.4bn, slightly below our forecast number. During the quarter, BLA reversed its LAT reserve of Bt9.5bn after the long-term bond yield recovered about 30bps+ illiquid premium of 50bps (set and implemented in this quarter by the Office of [the] Insurance Commission). Without such impacts, BLA would have delivered a loss ratio (provision for life policy reserve/premium) of only 47% in 2Q16.

ROI in 2Q16 jumped to 6.3% from 5.4% last quarter and from 4.6% for the same period last year. The great YoY ROI was due to a big investment gain of Bt1.2bn from equities during 2Q16 from only Bt113m in the same period last year. Note that its investment income was Bt2.72bn, up 10% YoY and flat QoQ.

Outlook

We expect BLA's 3Q16 earnings to stay at Bt1bn against loss of Bt786m in the same period last year from low provisioning for its life policy reserve and bigger sales on high margin products.

What's changed?

The reverse of LAT and big investment gain in 1H16 have triggered us to raise our BLA's profit estimate to Bt4.3bn in FY16 from the former figure of Bt850m and to Bt4.9bn in FY17 from the former Bt4.3bn.

Recommendation

Given the sustainable outlook for long-term bond yields and more attractive long-term products presented by BLA for 2H16, we view that BLA will come up with less risk aversion on extra provisions for interest rate risk and ROI reduction. We have slashed our FY16 loss ratio assumptions to 73% from old 88% before dropping to normal 70% in FY17 (unchanged). 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 earnings revisions, we have come up with its new economic value of Bt52.00 (derived from new business [VNB] of Bt18.82 and Embedded Value of Bt33.22). Our BUY rating stands.

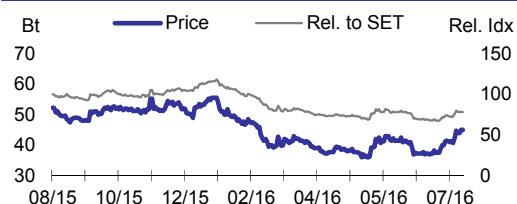
Sector: Insurance – OVERWEIGHT

Rating: BUY

Target Price: Bt52.00

Price (9 August 2016): Bt45.00

Price chart

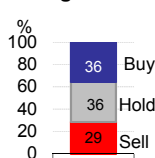


Share price perf. (%)	1M	3M	12M
Relative to SET	15.4	4.8	(17.2)
Absolute	20.8	16.1	(8.2)

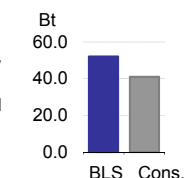
Key statistics

Market cap	Bt76.7bn	USD2.2bn
12-mth price range	Bt35.3/Bt56.3	
12-mth avg daily volume	Bt79m	USD2.3m
# of shares (m)	1,705	
Est. free float (%)	43.8	
Foreign limit (%)	25.0	

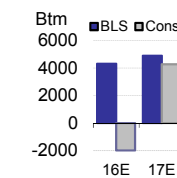
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015	2016E	2017E
Total rev (Btm)	61,427	55,589	62,807	66,228
Net profit (Btm)	2,650	4,108	4,300	4,900
Fully diluted EPS (Bt)	1.55	2.41	2.52	2.87
EPS growth (%)	-39.5%	+55.0%	+4.7%	+14.0%
PER (x)	29.0	18.7	17.9	15.7
EV/EBITDA (x)	16.4	16.1	16.5	14.7
PBV (x)	2.59	2.45	2.03	1.81
Dividend (Bt)	0.51	0.64	0.66	0.86
ROA (%)	1.2	1.6	1.5	1.5
Net gearing (x)	7.2	8.0	7.5	7.6
Total loss ratio (%)	82.3	70.4	73.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

CG/Anti-Corruption



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Suwat Bumrungratudom

Securities Fundamental Investment Analyst

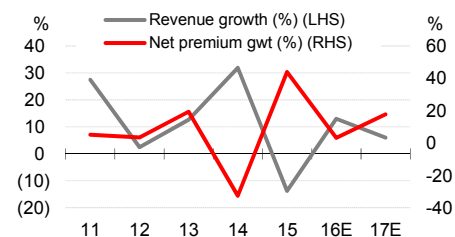
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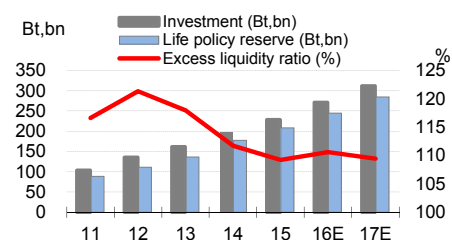
BLA: Financial Tables – Year

PROFIT & LOSS (Btm)					
Insurance premium	38,795	51,172	44,175	49,937	52,933
Less Life policy reserve	(25,357)	(42,106)	(31,114)	(36,454)	(37,053)
Net premium	13,438	9,066	13,061	13,483	15,880
Underwriting expenses	(13,939)	(14,243)	(17,473)	(19,461)	(21,423)
Profit from insurance	(501)	(5,177)	(4,412)	(5,978)	(5,543)
Revenue on investment	7,601	10,255	11,414	12,870	13,295
Other income/exp.	39	48	64	450	477
Net revenue	7,139	5,126	7,066	7,342	8,229
Operating expenses	(1,828)	(2,033)	(2,179)	(2,148)	(2,457)
EBIT	5,311	3,093	4,887	5,194	5,773
Minority interest	0	0	0	(11)	(12)
Extra items	0	0	0	0	0
Income tax	(930)	(443)	(779)	(883)	(861)
Net profit (loss)	4,381	2,650	4,108	4,300	4,900
Reported EPS	3.62	1.55	2.41	2.52	2.87
Fully diluted EPS	3.62	1.55	2.41	2.52	2.87
Core net profit	4,341	2,602	4,044	3,850	4,423
Core EPS	3.58	1.52	2.37	2.25	2.59
EBITDA	5,407	3,189	4,983	5,290	5,869
KEY RATIOS					
Revenue growth (%)	12.7	31.9	(13.7)	13.0	6.0
Gross margin (%)	15.4	8.3	12.7	11.6	12.3
EBITDA margin (%)	11.6	5.2	9.0	8.4	8.8
Operating margin (%)	9.4	4.2	7.3	6.1	6.7
Net margin (%)	9.4	4.3	7.4	6.8	7.3
Core profit margin (%)	9.4	4.2	7.3	6.1	6.7
ROA (%)	2.5	1.2	1.6	1.5	1.5
ROE (%)	19.7	10.4	15.2	12.5	12.7
Commission/Insurance premium	11.2	9.3	15.0	7.0	10.5
Life policy Provision/insurance premium	65.4	82.3	70.4	73.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	114.9	116.3	115.1
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	7,102	2,706	6,477
Total investment in securities	161,126	198,238	227,584	270,825	311,449
Total net loans	3,526	4,735	6,139	6,753	7,382
Premises & equipment (Net)	327	389	547	558	569
Other assets	5,925	6,520	8,204	13,586	11,594
Total assets	172,234	215,590	249,576	294,428	337,472
Life policy reserve	136,616	177,435	208,383	244,837	284,540
Unpaid benefit to life policy	8,800	1,489	470	5,170	3,706
Premium received in advance	950	2,239	459	500	550
Other liabilities	3,604	8,851	13,272	9,571	10,218
Total liabilities	149,971	190,013	222,585	260,078	299,014
Paid-up capital	1,212	1,698	1,704	1,704	1,704
Share premium	2,846	3,091	3,220	3,295	3,295
Retained earnings	18,138	20,787	22,017	29,351	33,459
Shareholders equity	22,264	25,576	26,990	34,350	38,458
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	172,234	215,590	249,575	294,428	337,472
CASH FLOW (Btm)					
Net income	4,381	2,650	4,108	4,300	4,900
Depreciation and amortization	136	143	150	157	165
Change in working capital	23,571	39,598	30,708	37,190	37,761
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	28,087	42,390	34,966	41,648	42,826
Capex (Invest)/Divest	(88)	(126)	(247)	(11)	(11)
Others	(27,427)	(49,777)	(39,023)	(41,498)	(41,965)
Cash flows from investing activities	(27,515)	(36,529)	(32,407)	(41,509)	(41,977)
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	0
Dividend payment	(917)	(678)	(1,325)	(1,090)	(792)
Others	(27,427)	(49,777)	(39,023)	(41,498)	(41,965)
Cash flows from financing activities	(107)	(678)	(1,325)	(1,090)	(792)
Net change in cash	465	5,183	1,235	(952)	57
Free cash flow (Btm)	28,000	42,264	34,719	41,637	42,815
FCF per share (Bt)	23.1	24.7	20.3	24.4	25.1
Insurance data					
FYP (Btm)	6,818	8,928	7,707	8,712	9,235
RYP (Btm)	28,545	37,379	32,268	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	44,175	49,937	52,933
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

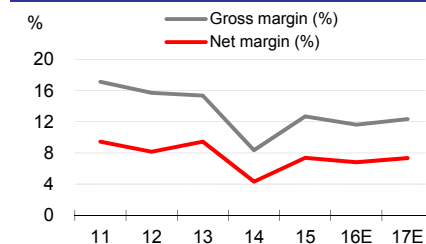
Revenue and net premium growth



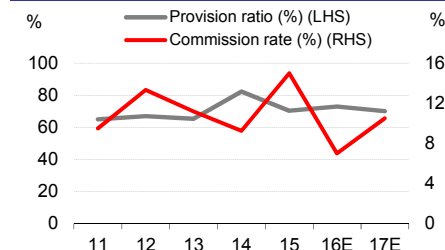
Excess liquidity



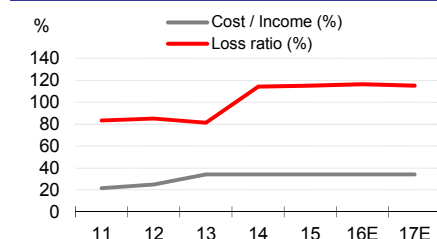
Profit margins



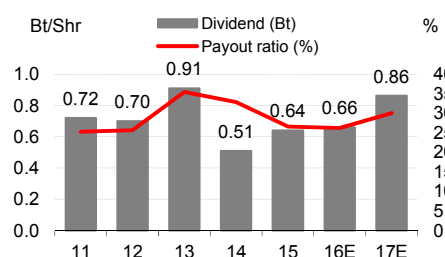
Commission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q15	3Q15	4Q15	1Q16	2Q16
Net insurance premium revenue	7,252	8,368	12,844	12,856	7,433
Less provision for life policy reserve	2,906	7,241	8,862	17,848	(6,037)
Revenue realization on premium	4,346	1,127	3,982	(4,993)	13,470
Underwriting expenses	4,127	4,469	3,131	6,564	5,250
Profit from insurance business	219	(3,342)	850	(11,556)	8,220
Net investment income	2,466	2,715	2,478	2,716	2,721
Gain on investment	113	91	29	555	1,207
Total revenue from investment	2,579	2,806	2,507	3,270	3,928
Other income	18	13	18	138	63
Total revenues	2,816	(523)	3,375	(8,148)	12,211
Total operating expenses	571	551	559	541	539
Exceptional items	0	0	0	0	0
EBT	2,245	(1,074)	2,816	(8,689)	11,671
Income tax	400	(287)	531	(1,801)	2,285
Minority Interest	(0)	(0)	0	0	(6)
Net profit	1,844	(786)	2,285	(6,888)	9,392
EPS	1	(0)	1	(4)	6
Core profit before tax	2,113	(1,177)	2,769	(9,382)	10,402
Core EPS	1	(1)	2	(6)	6

KEY RATIOS

Premium/life policy reserve (%)	15	17	25	22	13
Life policy provision/Premium (%)	40	87	69	139	(81)
Claim/life policy (%)	28	25	27	20	21
ROI (%)	5	5	4	5	6
Net margin (%)	19	(7)	15	(43)	83
Equity/Life policy reserve (%)	14	14	13	13	10
BV (Bt)	16	15	16	14	19
ROE (%)	29	(11)	36	(102)	155
ROA (%)	3	(1)	4	(11)	14
D/E (x)	8	8	9	8	10
Cost to Income (%)	20	147	98	194	(3)

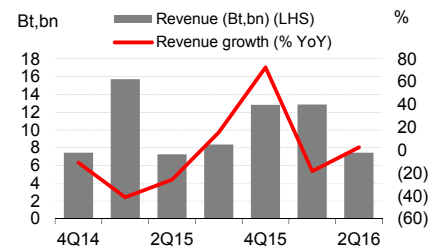
QUARTERLY BALANCE SHEET (Btm)	2Q15	3Q15	4Q15	1Q16	2Q16
Cash & Equivalent	564	461	7,102	5,590	8,894
Total investment in securities	224,442	226,543	227,584	240,689	242,851
Total net loans	5,430	5,683	6,139	6,463	6,674
Premises & equipment (Net)	465	534	547	572	1,107
Other assets	7,660	9,097	8,204	13,003	8,670
Total assets	238,561	242,317	249,576	266,318	268,196
Life policy reserve	192,445	199,686	208,383	234,972	228,748
Unpaid benefit to life policy	4,620	1,612	470	699	682
Premium received in advance	628	723	0	0	0
Other liabilities	13,473	15,024	13,732	6,395	6,275
Total liabilities	211,167	217,045	222,585	242,065	235,705
Paid-up capital	1,200	1,200	1,704	1,704	1,705
Share premium	2,700	2,700	3,220	3,295	3,307
Retained earnings	16,506	15,176	22,066	19,253	27,468
Shareholders equity	27,394	25,272	26,990	24,253	32,480
Minority interests	(0)	0	0	0	11

Insurance data	2Q15	3Q15	4Q15	1Q16	2Q16
FYP (Btm)	1,052	2,538	3,821	1,805	0
RYP (Btm)	5,806	5,398	6,097	10,996	0
SP (Btm)	537	501	3,070	612	0
Total premium (Btm)	7,395	8,437	12,988	13,412	0
FYP+SP mkt (%)	3.7	7.5	14.1	5.9	0.0
Total premium Mkt (%)	9.5	6.6	8.9	9.5	0.0

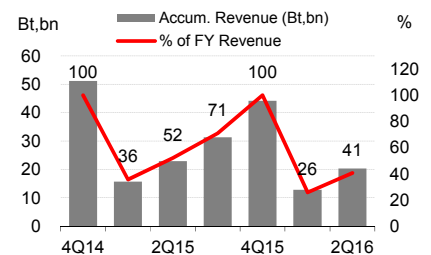
Company profile

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.

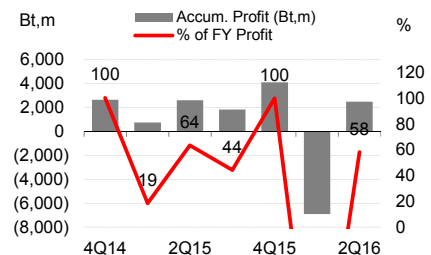
Revenue trend



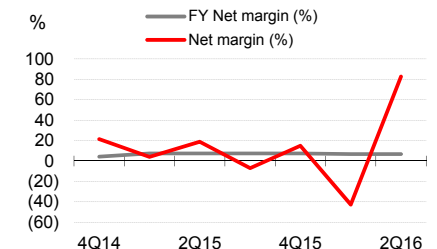
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



ROE

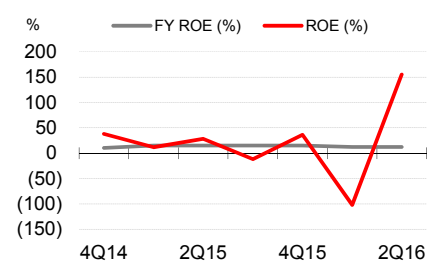


Figure 1 : 2Q16 earnings review

FY Ended 31 Dec (Btm)	2Q16	2Q15	YoY %	1Q16	QoQ %	6M16	6M15	YoY %	
Income Statement									
Net insurance premium revenue	7,433	7,252	2	12,856	-42	20,289	22,963	-12	
Less provision for life policy res	(6,037)	2,906	-308	17,848	-134	11,812	15,010	-21	
Revenue realization on premiurr	13,470	4,346	210	(4,993)	-370	8,477	7,953	7	
Underwriting expenses	5,250	4,127	27	6,564	-20	11,814	9,873	20	
Profit from insurance business	8,220	219	3,659	(11,556)	-171	(3,337)	(1,921)	74	
Net investment income	2,721	2,466	10	2,716	0	5,437	4,978	9	
Gain on investment	1,207	113	967	555	118	1,762	1,124	57	
Other income	63	18	249	138	-54	201	33	nm	
Total revenues	12,211	2,816	334	(8,148)	nm	4,063	4,214	-4	
Total operating expenses	539	571	-6	541	0	1,080	1,069	1	
EBT	11,671	2,245	420	(8,689)	nm	2,983	3,145	-5	
Income tax	2,285	400	471	(1,801)	nm	484	535	-9	
Net profit	9,392	1,844	409	(6,888)	nm	2,498	2,610	-4	
EPS	5.51	1.08	410	(4.04)	nm	1.47	1.53	-4	
Key ratios									
Premium/life policy reserve (%)	13.0	15.1		21.9		3.2	11.9		
Life policy provision/Premium (%)	(81.2)	40.1		138.8		58.2	65.4		
ROI (%)	6.3	4.6		5.4		6.0	6.4		
Tax rate (%)	19.6	17.8		20.7		16.2	17.0		
Net margin (%)	82.7	18.8		(42.7)		nm	11.4		
D/E (x)	10.0	7.9		8.2		10.0	7.9		
Cost to Income (%)	(3.3)	20.3		194.1		95.4	28.0		
Asset/Equity (%)	11.0	8.9		9.2		11.0	8.9		
Balance Sheet									
Cash & Equivalent	8,894	564	1,477	5,590	59				
Total assets	268,196	238,561	12	266,318	1				
Unpaid benefit to life policy	682	4,620	(85)	699	(2)				
Premium received in advance	0	628	100	0	0				
Total liabilities	235,705	211,167	12	242,065	(3)				
Retained earnings	27,468	16,506	66	19,253	43				
Shareholders equity	32,480	27,394	19	24,253	34				
Minority interests	11	(0)	nm	0	nm				
BV (Bt)	19.1	16.0	19	14.2	34				

- FYPs inched up YoY as expected
- Less YoY and QoQ provisioning for extra reserve in the liability adequacy test (LAT)
- Huge YoY investment gain
- A higher YoY and QoQ of ROI, due to fatter investment gain

Sources: Company data, Bualuang Research estimates

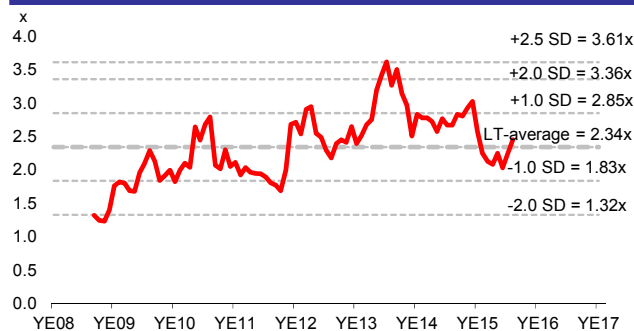
Regional Comparisons

	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	CNY32.5	88,983	11.0	9.5	0.4	16.1	1.5	1.3	16.1	16.3	1.7	1.9
China Life Insurance	601628 CH	CNY20.8	82,511	20.6	17.2	-15.4	19.5	1.8	1.7	8.7	10.3	1.7	1.9
China Pacific Insurance (Group)	601601 CH	CNY26.9	35,561	16.6	14.6	-16.4	14.0	1.8	1.6	11.3	12.0	2.8	2.8
T&D Holdings	8795 JP	JPY1,113.5	7,448	9.3	8.7	7.7	7.4	0.5	0.5	6.3	6.5	2.8	3.1
Bangkok Life Assurance	BLA TB	THB45.00	2,200	17.9	15.7	4.7	14.0	2.2	2.0	12.5	12.7	1.5	1.9
Thaire Life Assurance	THREL TB	THB10.20	175	13.8	12.2	14.5	12.4	4.3	4.0	32.9	33.9	5.6	6.3
Simple average				14.9	13.0	-0.8	13.9	2.0	1.9	14.6	15.3	2.7	3.0

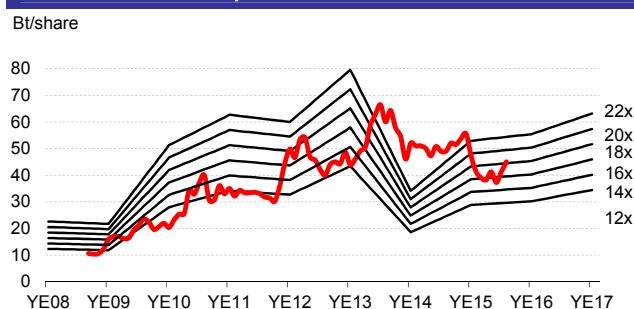
PER band versus SD (next 12 months)



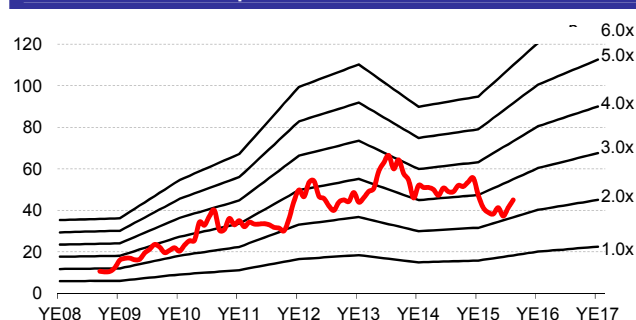
PER band versus SD (next 12 months)



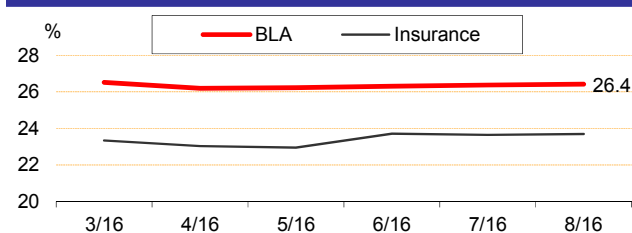
PER band and share price



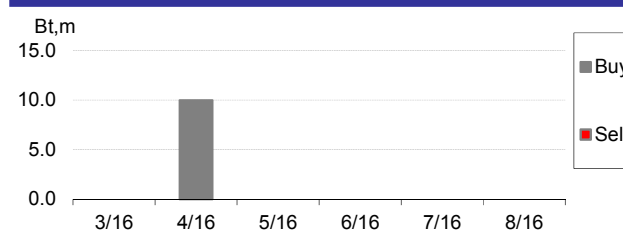
PBV band and share price



Foreign holdings



Management trading activities during past six months



Bualuang Securities Public Company Limited

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
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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	RJH

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No 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.