BUALUANG SECURITIES

COMPANY UPDATE

Bangkok Life Assurance

BLA TB / BLA.BK

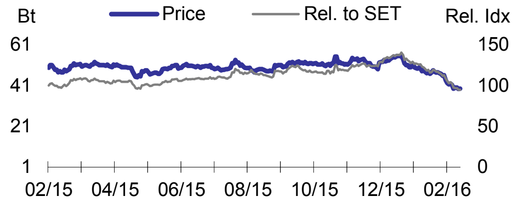
25 February 2016

Moderate loss looms in 4Q15

Sector: Insurance – OVERWEIGHT

Rating: BUY
Target Price: Bt47.00
Price (24 February 2016)**: Bt39.50**

Price chart

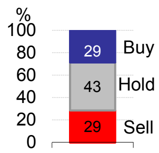


Share price perf. (%)	1M	3M	12M
Relative to SET	(22.3)	(23.6)	(4.4)
Absolute	(17.3)	(27.2)	(20.6)

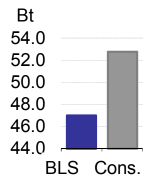
Key statistics

Market cap	Bt67.3bn	USD1.9bn
12-mth price range	Bt38.8/Bt56.3	
12-mth avg daily volume	Bt53m	USD1.5m
# of shares (m)	1,704	
Est. free float (%)	41.6	
Foreign limit (%)	25.0	

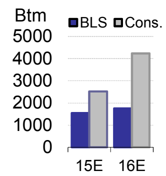
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Total rev (Btm)	61,427	58,740	60,988	65,641
Net profit (Btm)	2,662	1,550	1,750	3,950
Fully diluted EPS (Bt)	1.56	0.91	1.02	2.31
EPS growth (%)	-39.2%	-41.8%	+12.9%	+125.7%
PER (x)	25.3	43.5	38.6	17.1
EV/EBITDA (x)	24.2	26.8	24.9	11.3
PBV (x)	3.57	2.50	2.54	2.28
Dividend (Bt)	0.51	1.10	1.20	1.30
ROA (%)	1.2	0.7	0.6	1.2
Net gearing (x)	7.2	7.5	9.2	9.7
Total loss ratio (%)	79.8	75.0	74.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

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Interest rate risk spurs anticipated loss in 4Q15

We expect BLA to post a 4Q15 loss of Bt273m, much better than the greater loss of Bt786m in the last quarter but down from strong profit of Bt2.3bn in the same period last year. The assumed YoY figure is due to bigger provision for its life-policy reserve (caused by a lower bond yield than was expected). We expect 4Q15 provisions for its life-policy reserve equal to 83% of total premium revenue, from 43% in the same period last year. The 4Q15 total premium (plus single-premium) revenue is estimated at Bt15.8bn, up 112% YoY and 89% QoQ on a seasonal basis. We expect its 4Q15 ROI of 4.7% from 6.4% the same period last year. Given the lower bond yield trends, we cut our FY15 ROI to 4.9% from old 5.3% and FY16 ROI to 4.0% from old 4.5%.

Outlook for 4Q15 to focus on long-term, fatter-margin products

We forecast that its FY15 sales will decline 8% YoY to Bt47bn, as BLA has switched focus from short-term policies (Gain 1st 245) to long-term products (long-term endowments, pensions and credit protection, such as Bualuang *Huang Luk Lan* and Bualuang *Huang Krobkrua*, pension funds 555/600) and whole-life products with premium payment periods of at least four years. The firm is concentrating on long-term products in 4Q15 onwards, which carry fatter margins but are more difficult to sell.

Rising provisions risk from lower long-term bond yields

We assume provisioning for its life-policy reserve to be 83% of total premiums in 4Q15. This could be attributable to a lower long-term bond yield during 4Q15. Note that the 10-year bond yield dipped 25bps to 2.5% at end-Dec 2015. As such, we expect BLA to set a higher extra provision for interest rate risk in 4Q15 and FY16, based on Liability Adequacy Test accounting (LAT). This implies that if interest rates were to drop further in 4Q15 onwards, BLA would have the chance to raise provisioning against interest rate risk. Hence, we have revised up BLA's provisioning to 75% of total premiums in FY15 and 74% in FY16 from old 70% in both years.

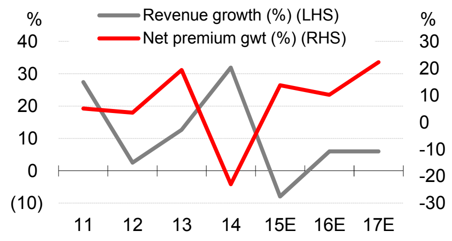
Investment thesis

Bigger threats lurk from lowering long-term bond yield trends and lower ROI in both FY15 and FY16, which have triggered us to cut our earnings projection by 60% in FY15 to Bt1.6bn and another 61% in FY16 to Bt1.8bn. Therefore, we have slashed our FY16 target price by 30% from Bt67 to Bt47, pegged to new embedded value of Bt30.5/share and total VNB of Bt16.47. During Oct 2015-Feb 2016, BLA's share price plunged 20% on fears of huge provisioning, as mentioned above. We view that it is too late to sell on cheap valuation. Besides, the firm has also sit on large gains on its holdings of long-term bond in its investment portfolio, which could offset its higher provisions to some degree during a cycle of low long-term coupon bond.

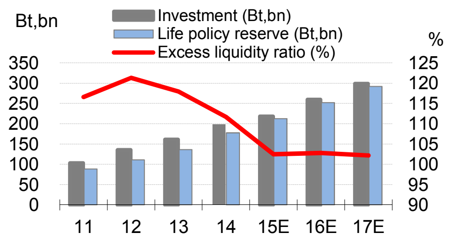
BLA: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Insurance premium	38,795	51,172	47,110	49,937	52,933
Less Life policy reserve	(25,357)	(40,818)	(35,333)	(36,953)	(37,053)
Net premium	**13,438**	**10,354**	**11,778**	**12,984**	**15,880**
Underw riting expenses	(13,939)	(15,531)	(19,392)	(19,557)	(20,995)
Profit from insurance	**(501)**	**(5,177)**	**(7,614)**	**(6,573)**	**(5,115)**
Revenue on investment	7,601	10,255	11,630	11,051	12,708
Other income/exp.	39	48	59	63	67
Net revenue	**7,139**	**5,126**	**4,075**	**4,541**	**7,660**
Operating expenses	(1,828)	(2,018)	(2,210)	(2,474)	(2,805)
EBIT	**5,311**	**3,108**	**1,865**	**2,066**	**4,855**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(315)	(316)	(905)
Net profit (loss)	**4,381**	**2,662**	**1,550**	**1,750**	**3,950**
Reported EPS	3.62	1.56	0.91	1.02	2.31
Fully diluted EPS	**3.62**	**1.56**	**0.91**	**1.02**	**2.31**
Core net profit	**4,341**	**2,614**	**1,491**	**1,687**	**3,883**
Core EPS	3.58	1.53	0.87	0.99	2.27
EBITDA	**5,407**	**3,204**	**1,960**	**2,162**	**4,950**
KEY RATIOS					
Revenue grow th (%)	12.7	31.9	(7.9)	6.0	6.0
Gross margin (%)	15.4	8.3	6.9	7.4	11.7
EBITDA margin (%)	11.6	5.2	3.3	3.5	7.5
Operating margin (%)	9.4	4.3	2.5	2.8	5.9
Net margin (%)	9.4	4.3	2.6	2.9	6.0
Core profit margin (%)	9.4	4.3	2.5	2.8	5.9
ROA (%)	2.5	1.2	0.7	0.6	1.2
ROE (%)	19.7	10.4	5.8	6.6	13.3
Commission/Insurance premium	11.2	9.3	15.0	13.0	13.5
Life policy Provision/insurance premium r	65.4	79.8	75.0	74.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	120.9	118.1	115.0
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	6,000	6,500	3,650
Total investment in securities	161,126	198,238	218,061	259,493	298,417
Total net loans	3,526	4,735	5,366	5,902	6,472
Premises & equipment (Net)	327	389	340	350	382
Other assets	5,925	6,520	6,313	6,669	11,023
Total assets	**172,234**	**215,590**	**236,080**	**278,914**	**319,944**
Life policy reserve	136,616	177,435	212,767	252,370	292,073
Unpaid benefit to life policy	8,800	1,489	(6,968)	(4,773)	(5,327)
Premium received in advance	950	2,239	0	0	0
Other liabilities	3,604	8,851	3,347	4,719	3,590
Total liabilities	**149,971**	**190,013**	**209,146**	**252,316**	**290,336**
Paid-up capital	1,212	1,698	1,708	1,708	1,708
Share premium	2,846	3,091	3,091	3,091	3,091
Retained earnings	18,138	20,787	22,135	21,799	24,809
Shareholders equity	**22,264**	**25,576**	**26,934**	**26,598**	**29,608**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**236,080**	**278,914**	**319,944**
CASH FLOW (Btm)					
Net income	4,381	2,662	1,550	1,750	3,950
Depreciation and amortization	136	143	150	157	165
Change in w orking capital	23,571	39,586	35,497	37,112	37,793
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**37,197**	**39,019**	**41,908**
Capex (Invest)/Divest	(88)	(126)	49	(10)	(32)
Others	(27,427)	(49,777)	(24,667)	(40,863)	(39,762)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(24,618)**	**(40,873)**	**(39,794)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	0
Dividend payment	(917)	(678)	(871)	(1,879)	(1,440)
Others	(27,427)	(49,777)	(24,667)	(40,863)	(39,762)
Cash flows from financing activities	**(107)**	**(678)**	**(871)**	**(1,879)**	**(1,440)**
Net change in cash	465	5,183	11,708	(3,732)	674
Free cash flow (Btm)	**28,000**	**42,264**	**37,246**	**39,009**	**41,876**
FCF per share (Bt)	**23.1**	**24.7**	**21.8**	**22.8**	**24.5**
Insurance data	**2013**	**2014**	**2015E**	**2016E**	**2017E**
FYP (Btm)	6,818	8,928	8,219	8,712	9,235
RYP (Btm)	28,545	37,379	34,411	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	47,110	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

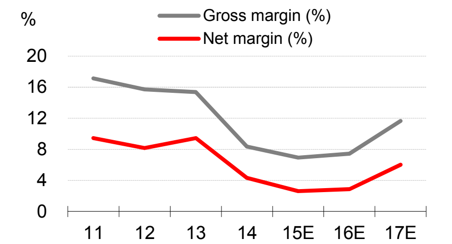
Revenue and net premium growth



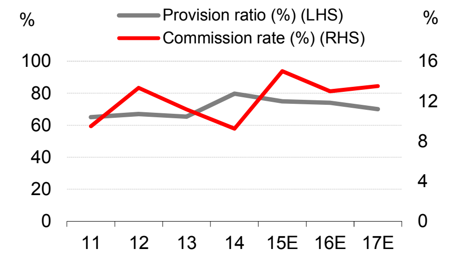
Excess liquidity



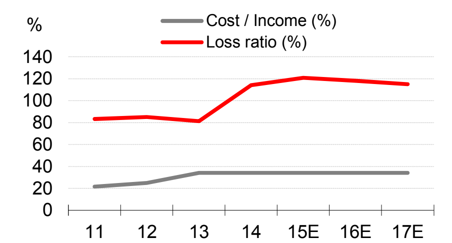
Profit margins



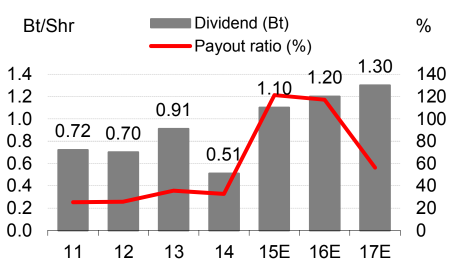
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



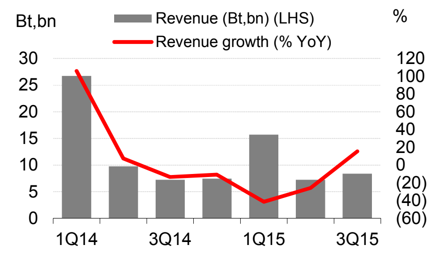
BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q14	4Q14	1Q15	2Q15	3Q15
Net insurance premium revenue	7,245	7,446	15,711	7,252	8,368
Less provision for life policy reserve	7,118	3,187	12,104	2,906	7,241
Revenue realization on premium	127	4,260	3,607	4,346	1,127
Underwriting expenses	3,389	4,120	5,746	4,127	4,469
Profit from insurance business	(3,261)	140	(2,139)	219	(3,342)
Net investment income	2,386	2,259	2,511	2,466	2,715
Gain on investment	162	951	1,010	113	91
Total revenue from investment	2,548	3,210	3,522	2,579	2,806
Other income	10	13	15	18	13
Total revenues	(703)	3,362	1,398	2,816	(523)
Total operating expenses	482	539	498	571	551
Exceptional items	0	0	0	0	0
EBT	(1,185)	2,823	900	2,245	(1,074)
Income tax	(304)	546	135	400	(287)
Minority Interest	(0)	(0)	0	(0)	(0)
Net profit	(881)	2,278	765	1,844	(786)
EPS	(1)	1	0	1	(0)
Core profit before tax	(1,357)	1,859	(126)	2,113	(1,177)
Core EPS	(1)	1	(0)	1	(1)
KEY RATIOS					
Premium/life policy reserve (%)	17	17	33	15	17
Life policy provision/Premium (%)	98	43	77	40	87
Claim/life policy (%)	5	7	24	28	25
ROI (%)	5	6	7	5	5
Net margin (%)	(9)	21	4	19	(7)
Equity/Life policy reserve (%)	14	14	14	14	14
BV (Bt)	20	21	15	16	15
ROE (%)	(14)	38	12	29	(11)
ROA (%)	(2)	4	1	3	(1)
D/E (x)	7	8	7	8	8
Cost to Income (%)	(69)	16	36	20	147

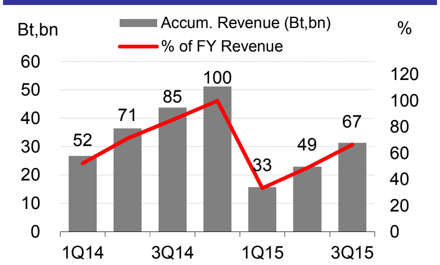
QUARTERLY BALANCE SHEET (Btm)	3Q14	4Q14	1Q15	2Q15	3Q15
Cash & Equivalent	2,184	5,708	1,405	564	461
Total investment in securities	196,098	198,238	212,733	224,442	226,543
Total net loans	4,323	4,735	4,938	5,430	5,683
Premises & equipment (Net)	388	389	460	465	534
Other assets	7,435	6,520	10,524	7,660	9,097
Total assets	210,428	215,590	230,061	238,561	242,317
Life policy reserve	174,248	177,435	189,539	192,445	199,686
Unpaid benefit to life policy	91	1,489	1,690	4,620	1,612
Premium received in advance	487	380	566	628	723
Other liabilities	11,607	10,710	12,498	13,473	15,024
Total liabilities	186,434	190,013	204,293	211,167	217,045
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,700	2,700	2,700	2,700	2,700
Retained earnings	12,449	14,678	15,443	16,506	15,176
Shareholders equity	23,994	25,576	25,768	27,394	25,272
Minority interests	0	0	0	(0)	0

Insurance data	3Q14	4Q14	1Q15	2Q15	3Q15
FYP (Btm)	757	768	1,672	1,052	1,300
RYP (Btm)	6,147	6,240	13,914	5,806	6,550
SP (Btm)	472	530	436	537	550
Total premium (Btm)	7,376	7,538	16,022	7,395	8,400
FYP+SP mkt (%)	3.2	3.2	5.3	3.7	nm
Total premium Mkt (%)	6.3	5.8	12.0	9.5	10.5

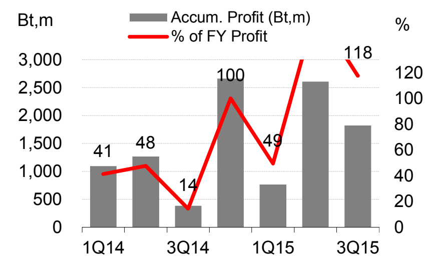
Revenue trend



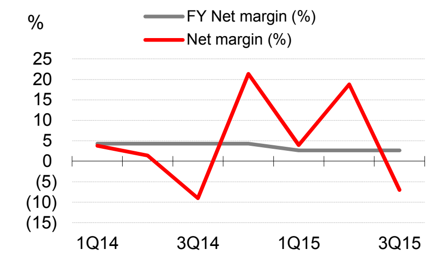
Revenue trend (accumulated)



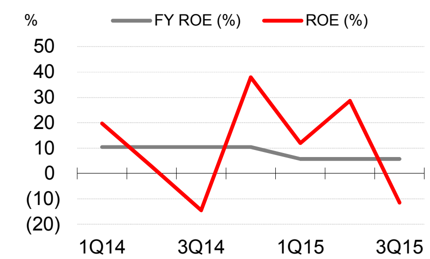
Net profit trend (accumulated)



Net margin



ROE



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. Its FYP revenue growth is currently about twice the industry average.

Figure 1 : 4Q15 earnings preview

FY Ended 31 Dec (Btm)	4Q15	4Q14	YoY %	3Q15	QoQ %	2015	2014	YoY %
Income Statement								
Net insurance premium revenue	15,779	7,446	*112*	8,368	*89*	47,110	51,172	*(8)*
Less provision for life policy rese	13,081	3,187	*310*	7,241	*81*	35,333	40,818	*(13)*
Revenue realization on premium	2,698	4,260	*(37)*	1,127	*139*	11,778	10,354	*14*
Underwriting expenses	5,050	4,120	*23*	4,469	*13*	19,392	15,531	*25*
Profit from insurance business	(2,352)	140	*(1,780)*	(3,342)	*(30)*	(7,614)	(5,177)	*47*
Net investment income	2,506	2,259	*11*	2,715	*(8)*	10,199	8,812	*16*
Gain on investment	216	951	*(77)*	91	*138*	1,431	1,443	*(1)*
Other income	13	13	*2*	13	*(3)*	59	48	*nm*
Total revenues	**384**	**3,362**	***(89)***	**(523)**	***nm***	**4,075**	**5,126**	***(21)***
Total operating expenses	590	539	*9*	551	*7*	2,210	2,018	*10*
EBT	(206)	2,823	*(107)*	(1,074)	*nm*	1,865	3,108	*(40)*
Income tax	67	546	*(88)*	(287)	*nm*	315	446	*(30)*
Net profit	**(273)**	**2,278**	***(112)***	**(786)**	***nm***	**1,550**	**2,662**	***(42)***
EPS	**(0.16)**	**1.33**	*(112)*	**(0.46)**	*nm*	**0.91**	**1.86**	*(51)*
Key ratios								
Premium/life policy reserve (%)	31.6	16.8		16.8		34.7	28.4	
Life policy provision/Premium (%	82.9	42.8		86.5		75.0	79.8	
ROI (%)	4.7	6.4		4.9		4.9	5.1	
Tax rate (%)	(32.4)	19.3		26.7		16.9	14.4	
Net margin (%)	(1.5)	21.4		(7.0)		4.3	9.4	
D/E (x)	8.6	7.8		7.7		8.6	7.8	
Cost to Income (%)	118.6	16.0		146.5		54.2	39.4	
Asset/Equity (%)	9.6	8.8		8.7		9.6	8.8	
Balance Sheet								
Cash & Equivalent	462	5,708	(92)	461	0			
Total assets	242,326	215,590	12	242,317	0			
Unpaid benefit to life policy	1,612	1,489	8	1,612	0			
Premium received in advance	724	380	100	723	0			
Total liabilities	217,051	190,013	14	217,045	0			
Retained earnings	15,176	14,678	3	15,176	0			
Shareholders equity	25,275	25,576	(1)	25,272	0			
Minority interests	0	0	nm	0	nm			
BV (Bt)	14.8	21.3	(31)	14.8	0			

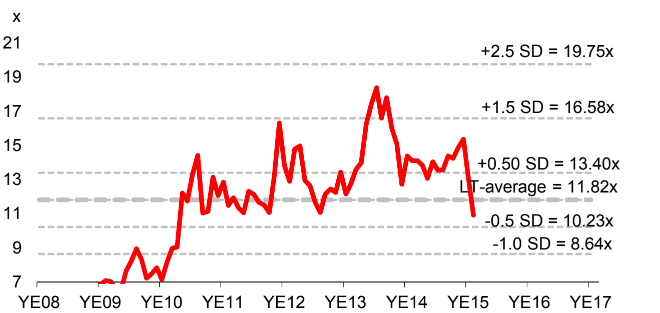
- FYPs are estimated to rise QoQ and YoY
- Fatter YoY provisioning for the life-policy reserve
- A lower YoY investment gain
- Dipping ROI in YoY terms, due to less investment gains

Sources: Company data, Bualuang Research estimates

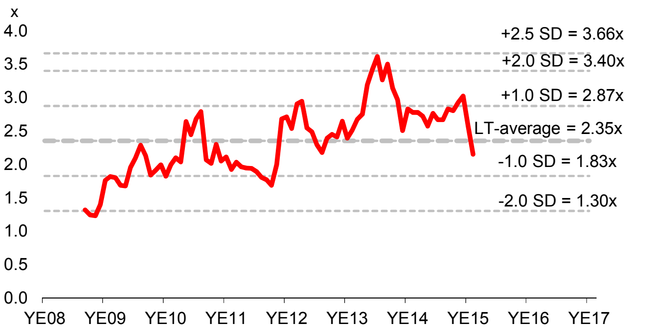
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2015E	PER (x) 2016E	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PBV (x) 2015E	PBV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	Div Yield (%) 2015E	Div Yield (%) 2016E
Ping An Insurance (Group)	601318 CH	CNY30.4	82,487	9.8	8.8	23.4	10.6	1.5	1.3	17.8	16.8	1.6	1.8
China Life Insurance	601628 CH	CNY22.1	87,462	15.1	14.0	28.0	9.0	2.0	1.8	14.0	13.6	2.0	2.3
China Pacific Insurance (Group	601601 CH	CNY23.9	32,187	13.2	12.9	49.2	2.5	1.7	1.5	13.2	12.4	2.6	2.9
T&D Holdings	8795 JP	JPY1,102.5	6,710	8.4	7.8	-7.4	6.6	0.5	0.5	6.0	6.4	2.6	2.9
Bangkok Life Assurance	BLA TB	THB39.50	1,887	43.5	38.6	-41.8	12.9	2.5	2.5	5.8	6.6	2.8	3.0
Thaire Life Assurance	THREL TB	THB10.10	170	15.7	13.6	3.6	15.6	4.6	4.2	30.8	32.3	4.5	5.2
Simple average				**17.6**	**16.0**	**9.2**	**9.5**	**2.1**	**2.0**	**14.6**	**14.7**	**2.7**	**3.0**

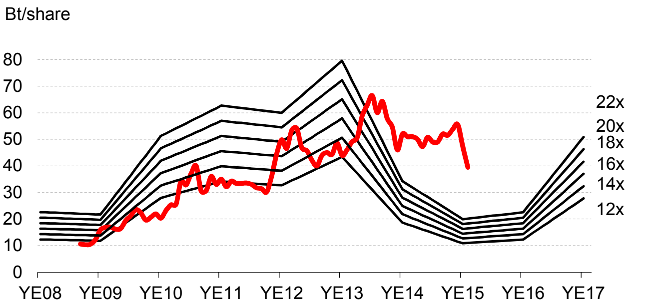
PER band versus SD (next 12 months)



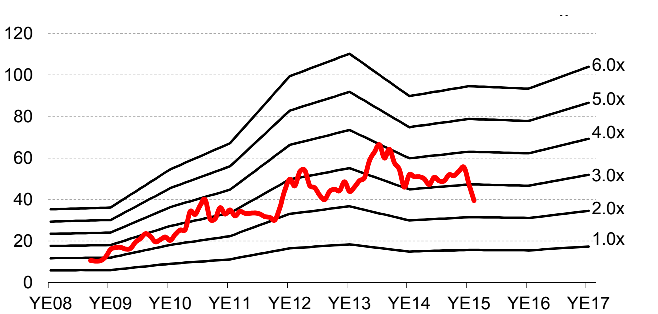
PER band versus SD (next 12 months)



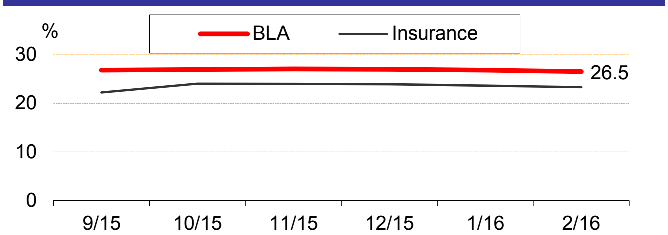
PER band and share price



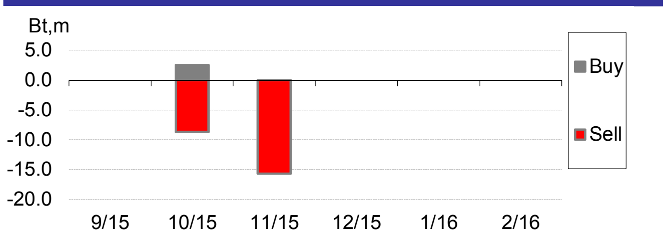
PBV band and share price



Foreign holdings



Management trading activities during past six months



Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

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.