

9 August 2012

Bangkok Life Assurance

Insurance
Overweight

2Q12 missed estimate, due to provisioning for SP policies

Below all estimates: BLA reported a 2Q12 profit of Bt808m, down by 37% YoY and 12% QoQ. The weak headline result was 15% below our estimate and 18% short of the *Bloomberg* consensus, due to heavy life policy reserve-setting and a high effective corporate tax rate of 38%. As such, 1H12 profit represents only 47% of our FY12 projection.

Results highlights: Total 2Q12 premiums jumped by 25% YoY and 13% QoQ to Bt9.97bn, boosted by Bt1.4bn in sales of single premiums (SP) for new products (mainly "Whole Life 1st 175"). The jump in SP sales meant that BLA had to raise provisions for its life policy reserve to 71% of total premiums at end-June (we had assumed 63.5%), up from 59.5% in 2Q11. The YoY increase in provisioning meant that the underwriting profit of the assurance unit fell to Bt226m from Bt793m in 2Q11.

Note that BLA's Whole Life 1st 175 policy features a single premium payment in exchange for insurance protection for whole life. Thus, provisioning requirements for the single premium are very high the first year, but plunge the next year.

ROI was 4.8% in 2Q12, which was slightly better than our estimate of 4.7%, driven by a net investment gain of Bt91m (our assumption was only Bt70m). Investment income was Bt1.35bn, up by 21% YoY and 1% QoQ, boosted by invested asset expansion and good equity portfolio management.

Outlook: We expect the strong sales of Whole Life 1st to be sustained through 2H12, especially in 4Q12. Thus, we also anticipate high life policy reserve-setting of 63-68% of total premiums (we model for 65%).

What's changed? Our FY12 earnings forecast stands unchanged at Bt3.7bn for the moment.

Recommendation: The successful sales of Whole Life 1st 175 will strengthen BLA's long-term performance, as the product yields a fatter margin over the long-term than endowment policies. But that long-term gain comes at the expense of heavy short-term provision-setting. Given its favorable long-term earnings outlook, our BUY rating stands with a YE12 target price of Bt54.

BUALUANG RESEARCH

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BUY (maintained)

Target price to Bt54.00
Price (08/08/12): Bt45.75
BLA TB / BLA.BK

Key Ratios & Statistics

| | |
|-------------------------|-----------------|
| Market cap | Bt54.90bn |
| 12-mth price range | Bt39.00/Bt59.50 |
| 12-mth avg daily volume | Bt10166m |
| # of shares (m) | 1200.0 |
| Est. free float (%) | 34.6 |
| Foreign limit (%) | 25.0 |

| Share price perf. (%) | 1M | 3M | 12M |
|-----------------------|------|-------|--------|
| Relative to SET | (12) | (7.1) | (29.8) |
| Absolute | 11 | (8.5) | (17.2) |

Financial summary

| FY Ended 31 Dec | 2011 | 2012E | 2013E | 2014E |
|------------------------|--------|--------|--------|--------|
| Total rev (Btm) | 36,091 | 40,219 | 43,454 | 46,673 |
| Net profit (Btm) | 3,417 | 3,700 | 4,450 | 4,950 |
| Fully diluted EPS (Bt) | 2.85 | 3.08 | 3.71 | 4.13 |
| BLS/Consensus (x) | n.m. | 0.84 | 0.87 | 0.79 |
| EPS Consensus (Bt) | n.m. | 3.65 | 4.25 | 5.25 |
| EPS growth (%) | +22.2% | +8.3% | +20.3% | +11.2% |
| PER (x) | 16.07 | 14.84 | 12.34 | 11.09 |
| EV/EBITDA (x) | 7.63 | 6.62 | 5.51 | 4.13 |
| PBV (x) | 4.09 | 3.43 | 2.78 | 2.32 |
| Dividend (Bt) | 0.72 | 0.70 | 0.90 | 1.00 |
| Dividend yield (%) | 1.57 | 1.53 | 1.97 | 2.19 |
| ROE (%) | 25.44 | 23.14 | 22.53 | 20.91 |
| ROA (%) | 3.04 | 2.74 | 2.71 | 2.63 |
| Net gearing (x) | 7.2 | 7.4 | 7.3 | 6.9 |

CGRating - 2011

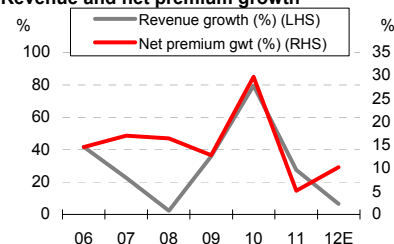


Figure 1: 2Q12 results

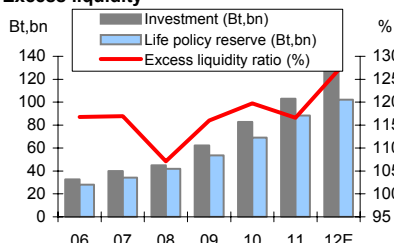
| FY Ended 31 Dec (Btm) | 2Q12 | 2Q11 | YoY % | 1Q12 | QoQ % | 6M12 | 6M11 | YoY % | |
|--|----------------|----------------|-------------|----------------|-------------|--------------|--------------|-------------|---|
| Income Statement | | | | | | | | | |
| Net insurance premium revenue | 9,973 | 7,959 | 25 | 8,803 | 13 | 18,776 | 15,820 | 19 | |
| Less provision for life policy reserve | 7,061 | 4,732 | 49 | 5,755 | 23 | 12,816 | 9,475 | 35 | • Life policy reserve-setting was heavier than we assumed |
| Revenue realization on premium | 2,912 | 3,227 | (10) | 3,048 | (4) | 5,960 | 6,345 | (6) | |
| Underwriting expenses | 2,686 | 2,433 | 10 | 2,943 | (9) | 5,629 | 5,078 | 11 | • Underwriting profit was Bt226m, down 71% YoY |
| Profit from insurance business | 226 | 793 | (71) | 105 | 116 | 331 | 1,267 | NM | |
| Net investment income | 1,350 | 1,114 | 21 | 1,335 | 1 | 2,685 | 2,179 | 23 | • Bt91m investment gain in 2Q12 (we estimated only Bt70m) |
| Gain on investment | 91 | 124 | (26) | 198 | (54) | 289 | 159 | 82 | |
| Other income | 27 | 3 | 735 | (10) | nm | 17 | 10 | 65 | |
| Total revenues | 1,694 | 2,034 | (17) | 1,628 | 4 | 3,322 | 3,614 | (8) | |
| Total operating expenses | 386 | 355 | 9 | 344 | 12 | 730 | 670 | 9 | |
| EBT | 1,308 | 1,679 | (22) | 1,284 | 2 | 2,592 | 2,944 | (12) | |
| Income tax | 501 | 387 | 29 | 370 | 35 | 871 | 665 | 31 | |
| Net profit | 808 | 1,292 | (37) | 914 | (12) | 1,721 | 2,279 | (24) | |
| EPS | 0.67 | 1.08 | (37) | 0.76 | (12) | 1.43 | 1.90 | (24) | |
| Key ratios | | | | | | | | | |
| Premium/life policy reserve (%) | 39.4 | 54.7 | | 37.4 | | 39.4 | 54.7 | | |
| Life policy provision/Premium (%) | 70.8 | 59.5 | | 65.4 | | 68.3 | 59.9 | | |
| ROI (%) | 4.8 | 5.6 | | 5.5 | | 4.8 | 5.6 | | • ROI was 4.8% in 2Q12 (our estimate was 4.8%) |
| Tax rate (%) | 38.3 | 23.1 | | 28.8 | | 33.6 | 22.6 | | |
| Net margin (%) | 7.1 | 14.0 | | 8.8 | | 7.9 | 12.6 | | |
| D/E (x) | 7.1 | 7.1 | | 7.4 | | 7.1 | 7.1 | | |
| Cost to Income (%) | 23.1 | 20.5 | | 21.1 | | 22.0 | 18.5 | | |
| Asset/Equity (%) | 8.1 | 8.2 | | 8.4 | | 8.1 | 8.2 | | |
| Balance Sheet | | | | | | | | | |
| Cash & Equivalent | 1,521 | 7,695 | (80) | 563 | 170 | | | | |
| Total assets | 129,240 | 100,782 | 28 | 121,883 | 6 | | | | |
| Unpaid benefit to life policy | 401 | 7,243 | (94) | 385 | 4 | | | | |
| Premium received in advance | 452 | 1,067 | (58) | 484 | 0 | | | | |
| Total liabilities | 113,167 | 88,131 | 28 | 106,753 | 6 | | | | |
| Retained earnings | 7,848 | 5,847 | 34 | 7,445 | 5 | | | | |
| Shareholders equity | 16,073 | 12,651 | 27 | 15,130 | 6 | | | | |
| Minority interests | 0 | 0 | nm | 0 | nm | | | | |
| BV (Bt) | 13.4 | 10.5 | 27 | 12.6 | 6 | | | | |

Source: Company data

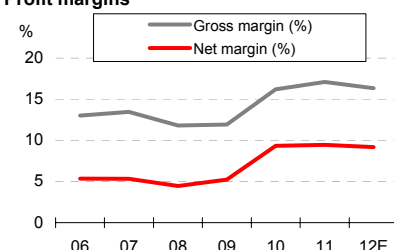
Revenue and net premium growth



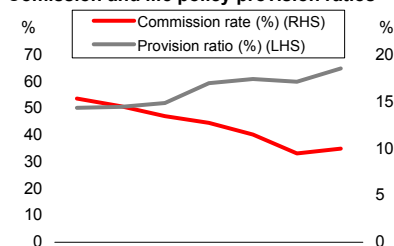
Excess liquidity



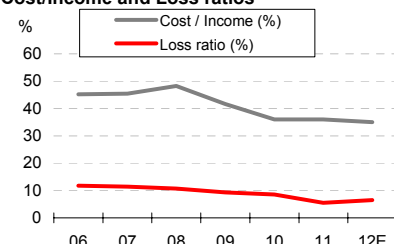
Profit margins



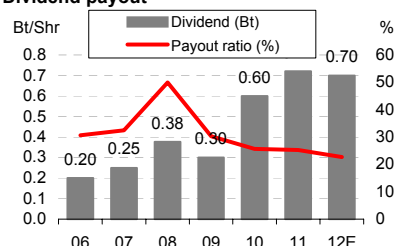
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



PROFIT & LOSS (Btm)

| | 2009 | 2010 | 2011 | 2012E | 2013E |
|------------------------------|--------------|---------------|---------------|---------------|---------------|
| Insurance premium | 19,632 | 25,982 | 31,067 | 34,239 | 36,293 |
| Less Life policy reserve | (11,666) | (15,645) | (20,197) | (22,255) | (23,591) |
| Net premium | 7,966 | 10,337 | 10,870 | 11,984 | 12,703 |
| Underwriting expenses | (8,287) | (9,426) | (9,728) | (11,405) | (12,121) |
| Profit from insurance | (322) | 911 | 1,142 | 578 | 581 |
| Revenue on investment | 2,996 | 3,916 | 5,024 | 5,980 | 7,160 |
| Other income / exp. | 26 | 22 | 16 | 30 | 35 |
| Net revenue | 2,701 | 4,849 | 6,182 | 6,588 | 7,777 |
| Operating expenses | (1,123) | (1,259) | (1,339) | (1,707) | (1,921) |
| EBIT | 1,578 | 3,591 | 4,842 | 4,882 | 5,855 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Extra items | 0 | 0 | 0 | 0 | 0 |
| Income tax | (392) | (794) | (1,425) | (1,182) | (1,405) |
| Net profit (loss) | 1,186 | 2,796 | 3,417 | 3,700 | 4,450 |
| Reported EPS | 0.99 | 2.33 | 2.85 | 3.08 | 3.71 |
| Fully diluted EPS | 0.99 | 2.33 | 2.85 | 3.08 | 3.71 |
| Core net profit | 1,159 | 2,774 | 3,402 | 3,670 | 4,415 |
| Core EPS | 0.97 | 2.31 | 2.83 | 3.06 | 3.68 |
| EBITDA | 1,673 | 3,686 | 4,938 | 4,977 | 5,951 |

KEY RATIOS

| | 2009 | 2010 | 2011 | 2012E | 2013E |
|--------------------------------|------|------|------|-------|-------|
| Revenue growth (%) | 36.0 | 79.5 | 27.5 | 6.6 | 18.0 |
| Gross margin (%) | 11.9 | 16.2 | 17.1 | 16.4 | 17.9 |
| EBITDA margin (%) | 7.4 | 12.3 | 13.7 | 12.4 | 13.7 |
| Operating margin (%) | 5.1 | 9.3 | 9.4 | 9.1 | 10.2 |
| Net margin (%) | 5.2 | 9.3 | 9.5 | 9.2 | 10.2 |
| Core profit margin (%) | 5.1 | 9.3 | 9.4 | 9.1 | 10.2 |
| ROA (%) | 1.7 | 3.2 | 3.0 | 2.7 | 2.7 |
| ROE (%) | 16.4 | 25.6 | 25.4 | 23.1 | 22.5 |
| Commission /Insurance prerr | 12.7 | 11.5 | 9.5 | 10.0 | 10.0 |
| Life policy Provision /insuran | 59.4 | 61.0 | 60.0 | 65.0 | 65.0 |
| Cost/income | 41.6 | 36.0 | 36.0 | 35.0 | 34.0 |
| Total Loss ratio (benefit pay) | 9.3 | 8.5 | 5.6 | 6.6 | 5.8 |

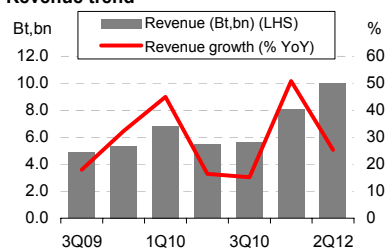
BALANCE SHEET (Btm)

| | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|---------------|---------------|----------------|----------------|----------------|
| Cash & Equivalent | 1,718 | 860 | 2,737 | 446 | 1,100 |
| Total investment in securities | 62,141 | 82,847 | 103,082 | 129,900 | 153,000 |
| Total net loans | 1,907 | 2,158 | 2,113 | 2,733 | 6,970 |
| Premises & equipment (Net) | 334 | 339 | 306 | 400 | 460 |
| Other assets | 2,240 | 2,543 | 4,221 | 1,692 | 2,923 |
| Total assets | 68,339 | 88,746 | 112,459 | 135,171 | 164,453 |
| Life policy reserve | 53,558 | 69,203 | 88,386 | 102,251 | 124,261 |
| Unpaid benefit to life policy | 4,680 | 5,461 | 8,354 | 9,862 | 10,992 |
| Premium received in advance | 1,417 | 1,281 | 0 | 2,500 | 3,625 |
| Other liabilities | 1,452 | 1,885 | 2,288 | 4,568 | 5,825 |
| Total liabilities | 61,108 | 77,829 | 99,028 | 119,181 | 144,703 |
| 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 | 3,332 | 7,017 | 9,531 | 12,090 | 15,850 |
| Shareholders equity | 7,232 | 10,917 | 13,431 | 15,990 | 19,750 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Total Liab. & Shareholders ' | 68,339 | 88,746 | 112,459 | 135,171 | 164,453 |

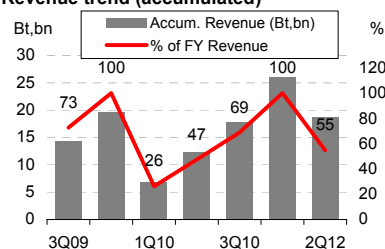
CASH FLOW (Btm)

| | 2009 | 2010 | 2011 | 2012E | 2013E |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Net income | 1,186 | 2,796 | 3,417 | 3,700 | 4,450 |
| Depreciation and amortizatio | 112 | 117 | 123 | 129 | 136 |
| Change in working capital | 12,209 | 16,236 | 19,098 | 23,307 | 24,860 |
| FX, non-cash adjustment & | 1,142 | 1,413 | 876 | 837 | 804 |
| Cash flows from operating | 13,507 | 19,149 | 22,638 | 27,137 | 29,446 |
| Capex (Invest)/Divest | (405) | 0 | (44) | (94) | (60) |
| Others | (64,280) | (182,016) | (22,506) | (26,674) | (26,767) |
| Cash flows from investing | (7,085) | (22,766) | (22,550) | (26,768) | (26,827) |
| Debt financing (repayment) | 0 | 0 | 0 | 0 | 0 |
| Equity financing | 2,625 | 0 | 0 | 0 | 0 |
| Dividend payment | (315) | (419) | (931) | (864) | (840) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cash flows from financing | 2,310 | (419) | (931) | (864) | (840) |
| Net change in cash | 8,732 | (4,035) | (843) | (495) | 1,779 |
| Free cash flow (Btm) | 13,102 | 19,149 | 22,594 | 27,043 | 29,386 |
| FCF per share (Bt) | 10.92 | 15.96 | 18.83 | 22.54 | 24.49 |

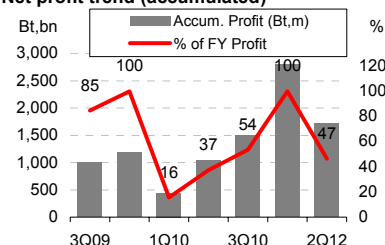
Revenue trend



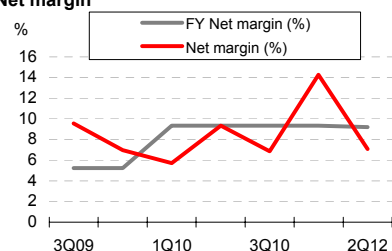
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



QUARTERLY PROFIT & LOSS (Btm)

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 |
|--|--------------|--------------|--------------|--------------|--------------|
| Net insurance premium revenue | 7,959 | 6,761 | 8,485 | 8,803 | 9,973 |
| Less provision for life policy reserve | 4,732 | 4,063 | 6,658 | 5,755 | 7,061 |
| Revenue realization on premium | 3,227 | 2,698 | 1,828 | 3,048 | 2,912 |
| Underwriting expenses | 2,433 | 2,422 | 2,228 | 2,943 | 2,686 |
| Profit from insurance business | 793 | 276 | (401) | 105 | 226 |
| Net investment income | 1,114 | 1,224 | 1,295 | 1,335 | 1,350 |
| Gain on investment | 124 | 172 | (4) | 198 | 91 |
| Total revenue from investment | 1,238 | 1,397 | 1,290 | 1,533 | 1,441 |
| Other income | 3 | 7 | (1) | (10) | 27 |
| Total revenues | 2,034 | 1,679 | 888 | 1,628 | 1,694 |
| Total operating expenses | 355 | 318 | 352 | 344 | 386 |
| Exceptional items | - | - | - | - | - |
| EBT | 1,679 | 1,362 | 536 | 1,284 | 1,308 |
| Income tax | 387 | 299 | 461 | 370 | 501 |
| Minority Interest | - | - | - | - | - |
| Net profit | 1,292 | 1,063 | 75 | 914 | 808 |
| EPS | 1.08 | 0.89 | 0.06 | 0.76 | 0.67 |
| Core profit before tax | 1,553 | 1,183 | 542 | 1,096 | 1,190 |
| Core EPS | 1.29 | 0.99 | 0.45 | 0.91 | 0.99 |

KEY RATIOS

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 |
|-----------------------------------|-------|-------|-------|-------|-------|
| Premium/life policy reserve (%) | 54.66 | 43.13 | 38.40 | 37.40 | 39.42 |
| Life policy provision/Premium (%) | 59.46 | 60.10 | 78.46 | 65.38 | 70.80 |
| Claim/life policy (%) | 8.25 | 6.30 | 3.04 | 7.06 | 6.20 |
| ROI (%) | 5.58 | 5.94 | 5.07 | 5.54 | 4.83 |
| Net margin (%) | 14.05 | 13.03 | 0.77 | 8.84 | 7.08 |
| Equity/Life policy reserve (%) | 15.76 | 15.80 | 15.20 | 15.20 | 16.07 |
| BV (Bt) | 10.54 | 10.76 | 11.19 | 12.61 | 13.39 |
| ROE (%) | 30.3 | 33.4 | 2.2 | 27.2 | 21.4 |
| ROA (%) | 5.28 | 4.13 | 0.27 | 3.25 | 2.65 |
| D/E (x) | 7.1 | 6.6 | 7.4 | 7.4 | 7.1 |
| Cost to Income (%) | 20.5 | 19.9 | 39.6 | 21.1 | 23.1 |
| Asset/Equity (%) | 8.2 | 7.6 | 8.4 | 8.4 | 8.1 |

QUARTERLY BALANCE SHEET (Btm)

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 |
|---|----------------|----------------|----------------|----------------|----------------|
| Cash & Equivalent | 7,695 | 2,568 | 2,737 | 563 | 1,521 |
| Total investment in securities | 87,124 | 96,662 | 103,082 | 114,112 | 120,106 |
| Total net loans | 2,241 | 1,916 | 2,113 | 2,152 | 2,403 |
| Premises & equipment (Net) | 325 | 315 | 306 | 328 | 325 |
| Other assets | 3,397 | 3,511 | 4,221 | 4,727 | 4,886 |
| Total assets | 100,782 | 104,971 | 112,459 | 121,883 | 129,240 |
| Life policy reserve | 77,665 | 81,729 | 88,386 | 94,142 | 101,202 |
| Unpaid benefit to life policy | 7,243 | 6,947 | 8,621 | 385 | 401 |
| Premium received in advance | 1,067 | 1,094 | 0 | 484 | 452 |
| Other liabilities | 2,156 | 2,290 | 2,021 | 11,741 | 11,112 |
| Total liabilities | 88,131 | 92,059 | 99,028 | 106,753 | 113,167 |
| 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 | 5,847 | 6,457 | 6,532 | 7,445 | 7,848 |
| Shareholders equity | 12,651 | 12,912 | 13,431 | 15,130 | 16,073 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Total Liab.&Shareholders' equity | 100,782 | 104,971 | 112,459 | 121,883 | 129,240 |
| | 0 | 0 | 0 | 0 | (0) |

Sources: Company data, Bualuang Research

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| 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.