**SELL**

**Initiation**

**TP: Bt 74.00 (Pre XD)**
**TP : Bt 53.00 (Post XD)**

**Downside : -14.9%**

**10 SEPTEMBER 2014**

# Bangkok Life Assurance (BLA TB)

## No longer a good proxy

**SARACHADA SORNSONG**
sarachada.sor@thanachartsec.co.th

**ITTIKORN THEPMANI**
Ittikorn.the@thanachartsec.co.th
662 – 617 4900


**We have no doubt that the insurance industry shows promising growth and is thus a good sector to be investing in. However, we now see BLA as no longer a good proxy for the industry's encouraging story, and this report lays out the reasons why we believe this is the case.**

### Initiate coverage with a SELL

BLA is the third-largest insurance company in Thailand with a 14.4% market share in 1H14. Although we believe BLA is the most investible insurance stock in Thailand, where the insurance industry is in an early growth stage, it is no longer a good proxy for the sector's promising story, in our view. 1) BLA's business structure has led to challenges. We see limitations in its bancassurance channel (via BBL) as a barrier to its growth and return balance. 2) With a resumption of loan demand, BBL's focus is shifting to secure deposits. This would mean putting less effort into selling BLA's products, and we expect BLA's market share gain story to come to an end. 3) With rising reserves, we forecast BLA's earnings to fall by 43% y-y this year.

### Imbalance of growth and return

Among the bancassurance plays, BLA is heavily exposed to high-growth but low-return endowment policies. This has resulted in BLA having a higher insurance policy reserve and lower profitability. We expect BLA to continue to be challenged by this imbalance for many years as: 1) 80% of its policies sold are via bancassurance at BBL's 975 branches nationwide. As it is heavily reliant on BBL's sales force, BLA policy sales are determined by BBL's deposit policy and the capabilities of BBL's branch staff. 2) Given BBL's lowest retail lending exposure and the bank's very strong deposit franchise, BLA is finding it tough to boost its exposure to high-margin whole life insurance policies. 3) Despite its growth, we do not see BLA's agent channel as strong enough. Albeit at a low base, whole life policy growth has been lackluster.

### Another six quarters of weak earnings

Despite securing the second spot for first-year premium sales, we forecast BLA's earnings to fall by 43% y-y this year. We expect this decline due to the setting aside of a special insurance policy reserve on the back of heavy sales of endowment insurance policies amid falling interest rates. The low base effect and our expectation of low special reserves booked in 2015 are why we see earnings rising significantly by 94.5% y-y in 2015. BLA's fluctuating earnings are because of the imbalance in its policies sold. Stripping out these extra expenses, BLA's underlying earnings growth looks mediocre at 13.8% y-y in 2015F as we expect its market share to drop by 2.8pp, from 10.1% to 7.3%.

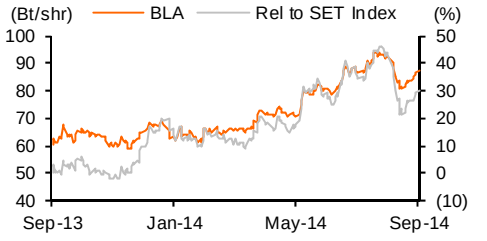
### Too high a premium priced in

We believe BLA deserves a premium but the shares have priced in too high a premium at 2.6x embedded value (EV) and 101x the value of new business (VNB). With low returns from its recently sold policies, we do not see this as justified. With 14.9% downside to our 12-month DDM TP of Bt74.0, BLA is a SELL.

### COMPANY VALUATION

| Y/E Dec (Bt m) | 2013A | 2014F | 2015F | 2016F |
|---|---|---|---|---|
| Insurance premium | 38,795 | 53,077 | 46,176 | 52,042 |
| Profit from operation | 5,419 | 3,196 | 6,200 | 7,545 |
| Net profit | 4,381 | 2,481 | 4,827 | 5,886 |
| Consensus NP | — | 4,268 | 5,472 | 5,652 |
| *Diff frm cons (%)* | — | *(41.9)* | *(11.8)* | *4.1* |
| Norm profit | 4,381 | 2,481 | 4,827 | 5,886 |
| Prev. Norm profit | — | 2,481 | 4,827 | 5,886 |
| *Chg frm prev (%)* | — | *0.0* | *0.0* | *0.0* |
| Norm EPS (Bt) | 3.6 | 2.0 | 4.0 | 4.9 |
| Norm EPS growth (%) | 16.8 | (43.4) | 94.5 | 22.0 |
| Norm PE (x) | 24.0 | 42.5 | 21.9 | 17.9 |
| P/BV (x) | 4.7 | 4.3 | 3.7 | 3.2 |
| Div. yield (%) | 0.9 | 0.1 | 0.9 | 1.1 |
| ROE (%) | 21.0 | 10.6 | 18.2 | 19.1 |
| ROA (%) | 2.8 | 1.3 | 2.1 | 2.2 |

### PRICE PERFORMANCE




### COMPANY INFORMATION

| | |
|---|---|
| Price: (Bt) *as of* 8-Sep-14 | 87.00 |
| Market cap (US$ m) | 3,296.1 |
| Listed shares (m shares) | 1,212.6 |
| Free float (%) | 39.1 |
| Avg. daily turnover (US$ m) | 2.1 |
| 12M price H/L (Bt) | 94.00/59.25 |
| Sector | Insurance |
| Major shareholder | Sophonpanich Family 30% |

Sources: Bloomberg, Company data, Thanachart estimates

Thanachart Securities


This report is prepared by Thanachart Securities. Please contact our salesperson for authorisation. Please see the important notice on the back page

**CONTENTS** **PAGE**

**Initiate coverage with a SELL rating** ..... 3

**Imbalance of growth and return** ..... 5

**Another six quarters of weak earnings** ..... 7

**Too high premium priced in** ..... 8

**Life insurance sector in Thailand** ..... 11

- Young and strong ..... 11
- Growing bancassurance ..... 12
- Market position of each major life insurance player ..... 14
- In search of profitability ..... 15
- Investment is another growth engine ..... 17

**Valuation comparison** ..... 18

**Appendix** ..... 19

**Financial summary** ..... 20

## Initiate coverage with a SELL rating

***BLA is the third-largest play in the growing life insurance industry***

Bangkok Life Assurance (BLA) is the third-largest life insurance company in Thailand. Thanks to its partnership with Bangkok Bank (BBL TB, Bt215, BUY), the country's largest bank with 975 branches nationwide, bancassurance is BLA's key distribution channel while 80% of its policies sold are endowment insurance.

**Ex 1: Snapshot Of BLA**

| | |
|---|---|
| Market share | 14.4% |
| Investment assets | Bt190,289m |
| Reserves to total assets | 81.5% |
| ROI | 5.0% |
| CAR | 240.0% |

Source: BLA

***We forecast industry premium growth of 21.0% in 2014***

Spurred by growing bancassurance and tax allowance benefits, endowment insurance policies have been well received and have emerged as a key growth driver for the fast-growing insurance premium industry in Thailand. Average premium growth has been very impressive at 13.3% p.a. since 2005. Though growing rapidly, life insurance remains underpenetrated. Life insurance premium volume to GDP is still low at only 3.8% while the country's premium per capita is just US$214. With the middle-income transition trend, aging population and growing awareness of insurance benefits, we have no doubt about the sector's growth promising outlook. The Office of the Insurance Commission (OIC) is forecasting total premium growth of 20% p.a. versus average growth of 14.8% p.a. over the past five years. Please see the Appendix at the back of this report for sector outlook details.

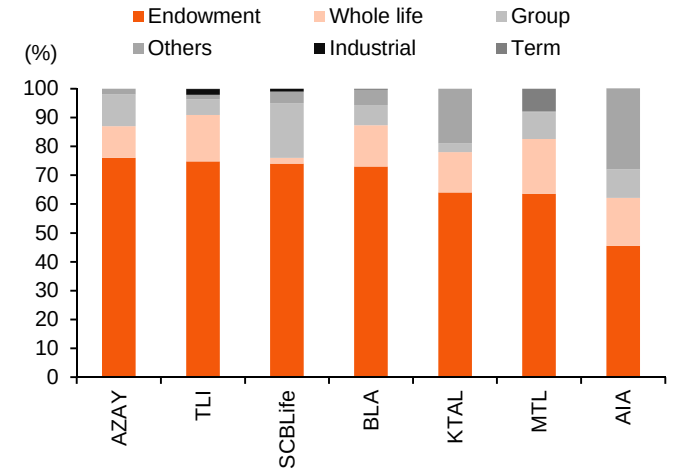
***But we do not see BLA as a good proxy for sector growth***

Although we believe it is clear that the insurance industry is entering a growth phase and is thus a good sector to invest in and that we view BLA as the most investible insurance stock, we don't see BLA as a good a proxy for this promising insurance premium growth in Thailand. We initiate coverage on BLA with a SELL rating and a 12-month DDM-based TP of Bt74.0/share for the following reasons:

***We see flaws in BLA's business structure***

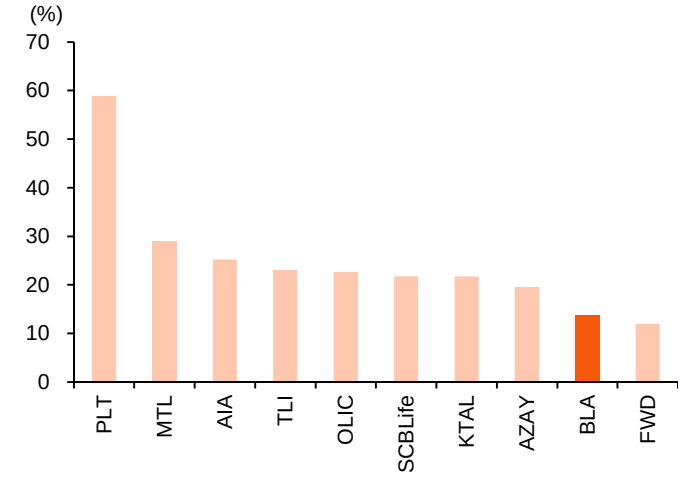
**First,** we believe BLA's business structure has created challenges for the company. The limitations of its bancassurance channel (via BBL) present a barrier to BLA achieving a good balance between growth and returns. With BBL's strong deposit franchise and low exposure to retail lending, BBL is keen to sell endowment products which offer volume growth but typically have low and fluctuating returns. Meanwhile, BLA's efforts to boost and strengthen its sales agent force are still far from yielding satisfactory results.

**Ex 2: Product Mix Comparison in 2013**




Sources: AZAY,TLI,SCBLife,BLA,KTAL,MTL,AIA

**Ex 3: Life Reserves To Premiums Comparison in 2013**

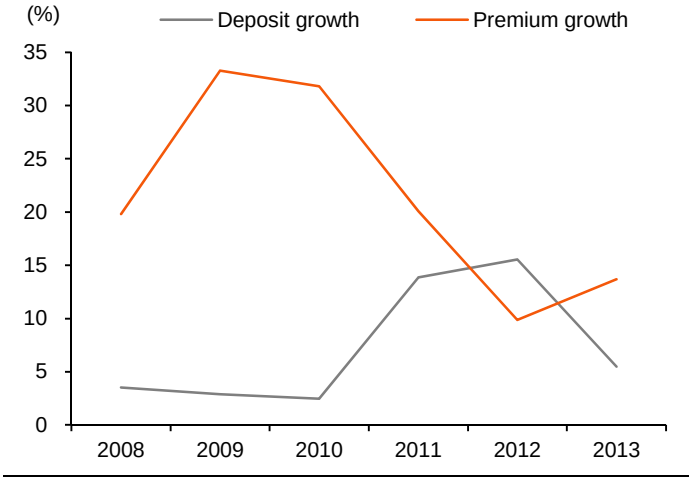



Source: Office of Insurance Commission

***We forecast BLA's market share to fall by 2.8pp in 2015 and 0.3pp in 2016***

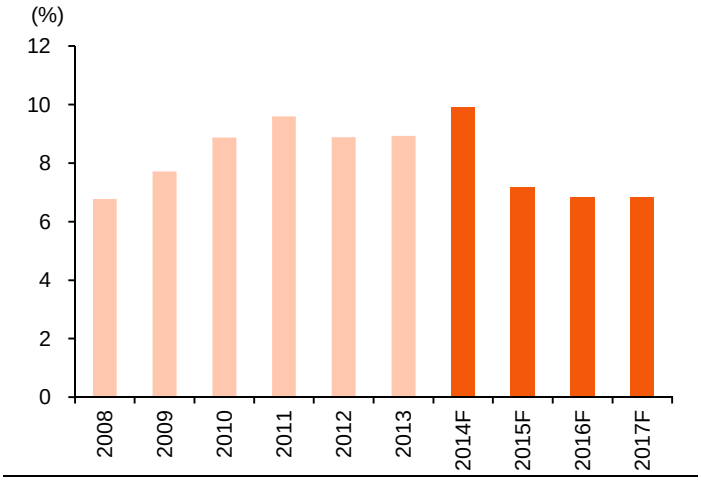
**Secondly,** as 80% of policies sold are via bancassurance and most of them are savings-type products, BLA's premium growth is heavily reliant on BBL's deposit policy. Historical data shows that BLA's insurance premium growth slowed during the period of strong loan growth as BBL's focus over that time shifted to securing and expanding its deposit base (Exhibit 4). As we have seen the economy turning around with a strong resumption of the investment cycle and corporate loan demand, BBL's focus is to expand its deposit base. This would mean less activity in selling BLA's products. After with BLA's expected strong first-year premium (FYP) growth in 2014F, we forecast BLA's total market share to drop to 7.3% in 2015 and 6.9% in 2016 (Exhibit 5).

**Ex 4: BBL's Deposit Growth vs BLA's Premium Growth**




Sources: BLA and BBL

**Ex 5: BLA's Market Share**

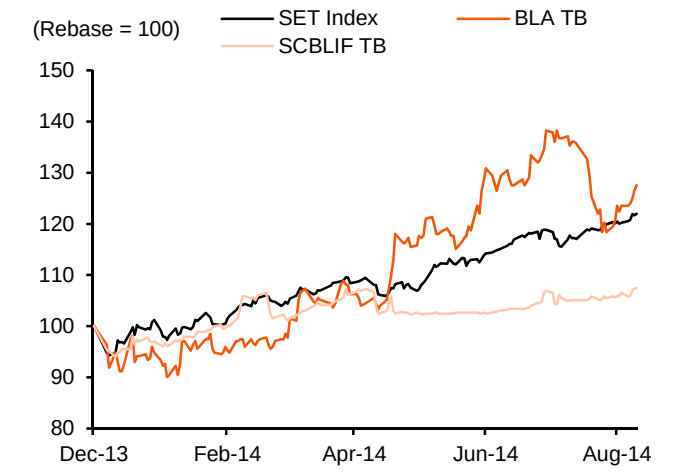



Sources: BLA, Thanachart estimates

***Earnings are being pressured by rising reserves***

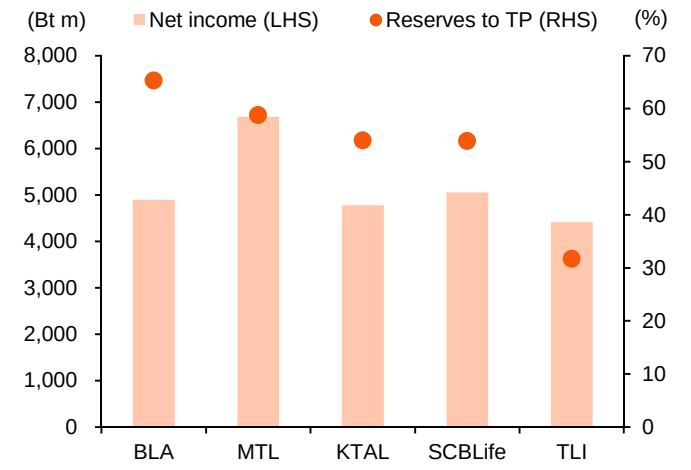
**Thirdly,** dragged by special reserves from its big bang endowment policy (called Gain 1st 116 5/1), we forecast BLA's earnings to fall by 43% y-y this year. Even though we believe 2Q14 should mark the bottom of its quarterly earnings, we expect earnings recovery momentum to be mild in 2H15 and look for uninspiring underlying earnings growth in 2015 due to falling market share. We do not believe these negatives have been fully priced in as BLA's share price has dropped by only 7.4% from its all-time high of Bt94 in July of this year (Exhibit 6).

**Ex 6: Share Price Performance**




Source: Bloomberg

**Ex 7: NI vs % Of Reserves To Total Premiums In 2013**




Source: Office of insurance commission

## Imbalance of growth and return

Ordinary life insurance policies can be divided into the following four categories:

***Endowment policies provide lower returns than other policies***

1) Endowment Life Insurance: Savings-type product; the insured person receives an amount at a certain time or a designated beneficiary receives death benefits upon the death of the insured person within the insured period. Examples of this policy of BLA are BLA Pempoonsub (5/2) and Gain 1st 350 (10/5)

2) Term Life Insurance: Provides temporary protection with no savings component. A claim can be made upon death within the stated term period.

3) Whole Life Insurance: Provides life-time protection (to the age of 90 or 99) with death benefits paid to the beneficiary upon the death of the insured person. BLA's popular product under this type of policy is Huangrak 20 (90/20)

4) Rider: Additional coverage desired by the insured (sample of additional coverage: medical expenses, accident insurance).

As they are savings-type products, endowments are the most sellable product in Thailand. This is has particularly been the case since 2008, as life insurance premium growth has been driven mainly by the bancassurance channel. With committed returns and shorter premium payments and duration of policies than whole life, the endowment life insurance policy reserve is higher and generates a lower return than a whole life policy. Therefore, endowment is more of a volume play while whole life's ability to generate returns is higher.

***We are not excited about BLA's strong premium growth in 1Q14***

Compared with other insurance plays that have bancassurance as the key distribution channel, BLA has a very high concentration in high-growth but low-return endowment insurance policies. As this is a savings-type product, it is fast-growing and was key in driving up BLA's market share by 5.6pp to 14.4% in 1H14. With the low return of endowment products due to the high insurance policy reserve and lower investment return given the short premium payments, we are not very excited about BLA's strong premium growth in 1Q14. In fact, we see the jump as a drawback to BLA's profitability. Being aware of this, and with the intention to diversify its exposure from endowment policies, BLA has been making great efforts to boost its exposure to high-return whole life insurance policies. However, the effort has not been so productive thus far. We see it as a tough task for BLA to achieve due to the following structural problems:

***Heavy reliance on bancassurance***

1) BLA is one of the most reliant companies in the bancassurance channel. Eighty percent of its policies sold are via bancassurance versus approximately 72% for Muang Thai Life Assurance (MTL) and 62% for Krungthai Axa Life Assurance (KTAL). This makes BLA's policy sales heavily reliant on BBL's deposit policy and the capability of BBL's branch staff. As the biggest bank with a very strong deposit franchise, the staff at BBL's branches is keen to sell endowment insurance policies which offer high premium growth but low and fluctuating returns.

***Weak agent force***

2) BLA's ability to boost its whole life insurance policy sales depends on agents. Unfortunately, although it has been pushing hard to beef up its agent channel since 2008, BLA still has a comparatively small number of agents at around 3,558 versus key insurance players like MTL, SCB Life Assurance (SCBLife) and KTAL with 13,907, 4,162 and 7,941, respectively.

***BBL has the lowest exposure to retail and mid-sized SME lending***

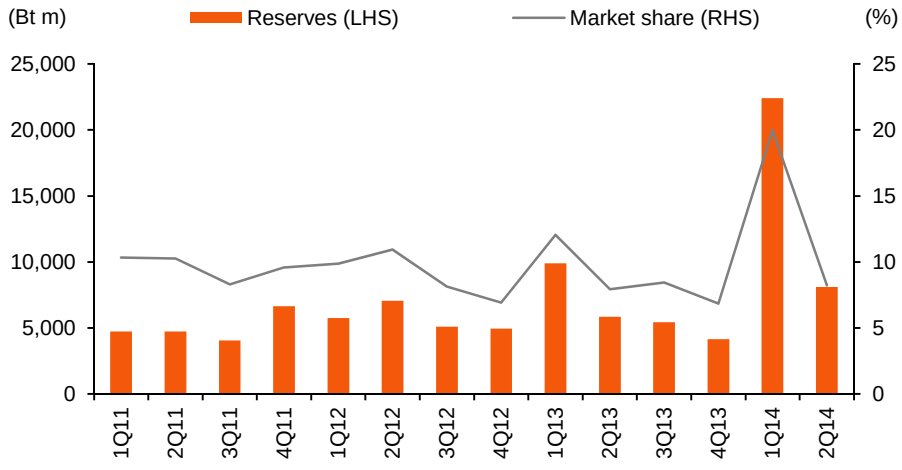
3) Focusing highly on the corporate segment, BBL has the lowest exposure to retail and small-sized SME lending, which are segments where banks can successfully cross-sell whole life protection products via bundling insurance policies with loan services. This is particularly the case with SCBLife, which, although heavily reliant on bancassurance, has done a good job in raising exposure to whole life policies.

Also, unlike other banks that have expanded their retail lending services to cover auto and personal loans, BBL's focus remains on housing loans where growth is more organic. Despite the bank disclosing its plan to expand its footing in retail lending, with the small ticket size of retail loans, we expect it to take a long time for BBL to catch up with its peers in developing retail lending. Thus, we expect BLA to continue to struggle to increase its proportion of high-yield whole life policies.

***Growth and return imbalance = market share swings, fluctuating earnings***

As these are structural issues and are not wholly under BLA's control, we believe it will be challenging for BLA to unlock itself from these problems in the near future. This could create difficulties at a juncture when BLA cannot freely grow endowment policy sales to enjoy volume and market share gains, as this would hurt its overall returns. On the other hand, letting go of market share and focusing on selling high-margin whole life products would boost returns in our view, but it would also jeopardize BLA's market position. We see this imbalance of growth and returns resulting in swings of BLA's market share and fluctuations in its earnings pattern as we witnessed during 2012-14.

**Ex 8: BLA's Market Share vs Reserves And Quarterly Earnings**




Sources: BLA, Thanachart estimates

## Another six quarters of weak earnings

*Higher market share but earnings dropped by 46.7% y-y in 1H14*

Despite record-high sales of premiums in 1Q14 with extraordinary growth of 103.8% y-y following by normalized growth in 2Q14 of 7.42% y-y, earnings did not improve much during that period given that most of the products sold comprised single-premium endowment policies which require high reserves. On top of that, a sharp interest rate fall in 2Q caused BLA to book huge extra reserves. As a result, instead of seeing better earnings on the heels of a higher market share, BLA's earnings dropped by 46.7% y-y in 1H14.

BLA recorded special reserves in both 1Q14 and 2Q14 at Bt400m and Bt1,450m respectively. The special reserves were due to higher liability amounts marked to market given the decline in the interest rate in 1H14. We conservatively assume that BLA will book an additional reserve of Bt350m in 2H14. The bond yield has continued to come down from 2Q14 so we believe additional reserves are likely to be seen in the following quarters.

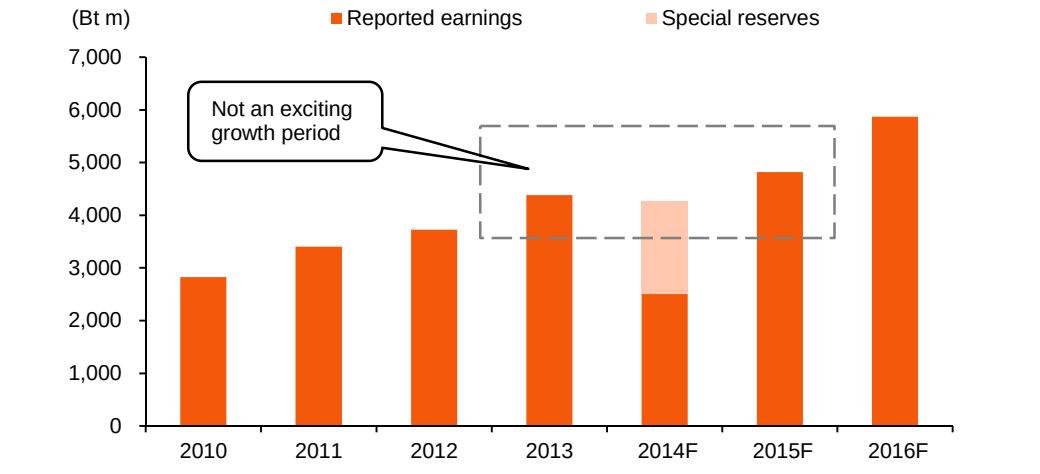
*With special reserves in 2014, earnings growth in 2015F seems overstated*

With no renewal premium payment for the Gain 1st 116 5/1 and less activity by BBL because its focus has shifted to expanding its deposit base, we expect BLA's market share to decline from 10.1% in 2014 to 7.3% in 2015 and 6.9% in 2016. Thus, even though BLA's earnings, in our opinion, might bottom out in 2Q14, we still expect them to be quite weak for the following six quarters.

*We expect low and inconsistent earnings for the next six quarters*

On the assumption of low special reserves in 2015 as we expect BLA to be less aggressive in selling single endowment premiums, we forecast net profit to rebound sharply by 94.5% in 2015. That being said, the jump would be more from the low base effect of lower special reserves. If we strip out the special reserves, we estimate earnings to be in the range of Bt4.2bn-4.8bn during 2013-15, implying growth rates of -3.17% in 2014F and 13.8% in 2015F which are lower than the average growth during 2011-13 of 15.8% (Exhibit 9).

**Ex 9: BLA's Earnings Adjusted For Special Reserves**




Sources: BLA, Thanachart estimates

Our key assumptions for BLA's earnings over 2014-16 are as follows:

*A significant fall in FYP growth*

- We forecast BLA's total premium growth of 37.8% in 2014F before a drop of 13% in 2015F. The drop in 2015F is due to our assumption that single premiums will decline significantly as BLA might not want to sell so much of this kind of product anymore given its low-margin nature. We expect the proportion of single premiums to total first-year premiums to drop from 62.5% in 2014 to 17% in 2015 which is above the average level during 2011-13 of 15.6%. This would result in lower market share, as we mentioned earlier.

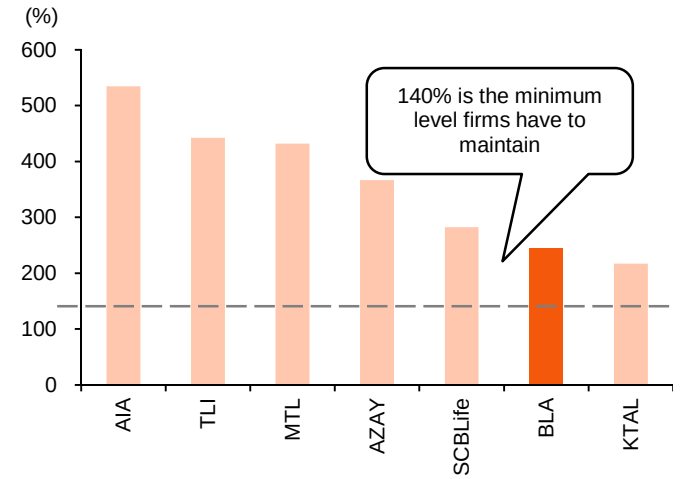
*High policy reserve*

- We conservatively forecast BLA's total insurance expenses to total premiums to be over 100% at 108.1% in 2014 before gradually dropping to 106.1-106.3% during 2015-16. We expect BLA to maintain its high level of reserves as it has high exposure to endowment policies. Meanwhile, its capital adequacy ratio (CAR) is the second lowest among the major life insurance companies in Thailand in 2013 (Exhibit 10).

*Rising ROI factored in*

- Though we forecast BLA to post a record-high returns in terms of investment assets with higher ROIs of 5.10-5.20% during 2014-16, which is above its ROI in 2013 of 5.03%, this would still not be enough to help BLA deliver strong earnings growth.
- We assume a tax rate of 17.5% in 2014 and 20.0% for the rest of the projection i.e. until 2034F. The low tax that we expect to be charged in 2014 is a result of very low net income in 2Q14 of Bt169m versus Bt1,452m in 2Q13 and Bt1,096m in 1Q14.

**Ex 10: High Reserves Likely Given BLA's Low CAR Level**




Sources: AIA,TLI,MTL,AZAY,SCBLife,BLA,KTAL

**Ex 11: Key Assumptions**

| | 2013 | 2014F | 2015F | 2016F |
|---|---|---|---|---|
| Total premiums | 13.68 | 37.80 | (13.00) | 12.70 |
| FYP | 20.16 | 97.70 | (45.54) | 23.28 |
| RYP | 10.33 | 15.72 | 7.44 | 9.32 |
| Total insurance exp | 96.76 | 108.13 | 106.13 | 106.30 |
| ROI | 5.03 | 5.10 | 5.10 | 5.20 |

Source: Thanachart estimates

## Too high a premium priced in

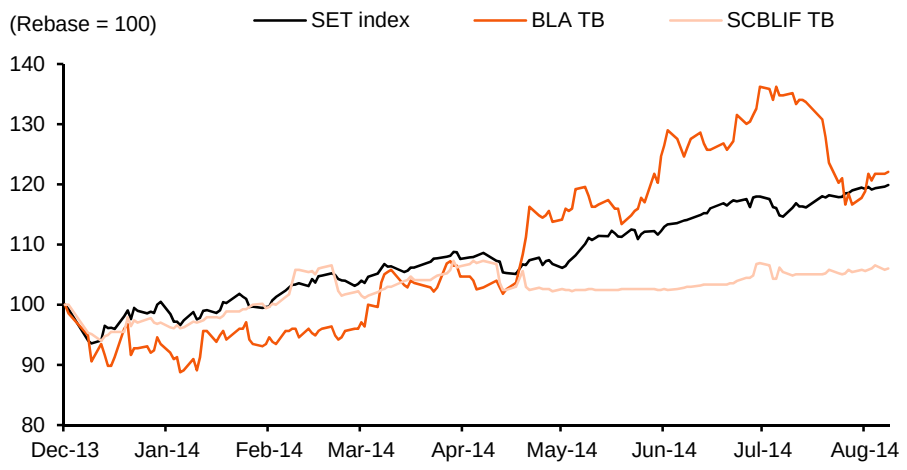
*Strong share price performance on the heels of market share gains*

With the very successful product launch in 1Q14 (Gain 1st 116 5/1), the market reacted positively. As a result, during 2Q14 when we believe news regarding the record y-y premium growth became overblown, BLA outperformed the Stock Exchange of Thailand (SET) Index and SCBLife with a peak level of 15% against the SET and 22% against SCBLife. However, the outperformance story came to an end after BLA announced its disappointing 2Q14 earnings, which were due to higher-than-expected reserves.

*Trading at very high EV and VNB multiples on our estimates*

Though BLA's share price has come down by 7.4% from its peak, we believe that it is still trading at an excessive level. Based on our EV and VNB projections in 2014, the current share price implies premiums over EV and VNB of 2.6x and 101x, respectively, which we consider to be very high. Historical high EV and VNB multiples have been at 2.5x and 44.2x respectively, with five-year simple average multiples of 2.1x and 29.8x. The jump in the VNB premium, on our estimates, is a result of our expectation of VNB falling by 44.15% in 2014 due to the low returns from its new policies sold this year.

**Ex 12: Price Performance**




Source: Bloomberg

***We present a simple way to gain an understanding of the company's share price***

Apart from the commonly used EV and VNB valuation approaches, we also analyze the value the market has assigned to BLA's distribution channels, i.e., the number of sales representatives and the number of bank branches due to the growing popularity of bancassurance. We also look at the market cap to the size of a mortgage loan portfolio as this is also a hook that a bank uses to cross-sell whole life policies via bundling with loan services. Our logic for using these ratios is as follows:

***Number of agents***

- We believe the number of sale agents is a good proxy for insurance firms' ability to seize the opportunity to sell high-margin products, i.e., whole life and term policies, as these are difficult to sell via the bank channel. The higher the market cap per sales agent, the higher the expectation that the agents will be able to sell insurance products.

***Number of bank branches***

- Bank branches are used to capitalizing on the bancassurance theme. Normally, a bank that has a high number of branches should have an advantage over rivals as it can better capitalize on those assets. We regard bank branches as being crucial channels to sell saving-based products like endowment policies.

***Size of mortgage loans***

- The mortgage loan portfolio is used to identify which bank has the best portfolio to facilitate growth in credit life policies.

**Ex 13: Market Expects BLA To Generate More Efficient Results Than SCBLife**

| (x) | Market cap/sales agent | Market cap/branch | Market cap/mort. port |
|---|---|---|---|
| SCBLife | 18.3 | 74.7 | 253.8 |
| BLA | 28.6 | 107.9 | 459.3 |

| | Sales agent (Person) | Branch (Unit) | Mortgage loan (Bt bn) |
|---|---|---|---|
| SCBLife | 4,162 | 1,022 | 301 |
| BLA | 3,678 | 975 | 229 |

| (Bt m) | Market capitalization |
|---|---|
| SCBLife | 76,342 |
| BLA | 105,197 |

Sources: Thanachart estimates, BLA and SCBLife

***We believe the premium for BLA looks too high***

Comparing the above ratios, the conclusion we can draw is that the market expects BLA to outperform SCBLife on all major metrics, which we do not think should be the case. SCB has the best universal banking platform in our view and very high exposure to retail lending where it can easily cross-sell insurance policies. The only area where we believe BLA justifies a premium to SCBLife is BLA's larger trading liquidity. Even factoring this in, we believe BLA's share price seems to be at a higher premium than it should be.

***Initiate with a SELL and a TP of Bt74.0***

We use a DDM model with a cost of equity of 12% to derive BLA's 2015 intrinsic value of Bt74.0/share. We forecast a payout ratio of 20% during 2015-20F and 40% going forward. The reason for the low payout ratio initially is that we believe BLA wants to maintain its CAR ratio at above the 300% level as there is a lack of clarity over the next phase of the risk-based capital (RBC) framework. Our assumption for a cost of equity of 12% comes from a 4.5% risk-free rate and a 7.5% market risk premium. Our 12-month TP implies a 2.2x EV and an 86.0x VNB in 2014F. Given that BLA is trading at high EV and VNB multiples, we initiate coverage on the stock with a SELL rating.

**Ex 14: Forecasted Value of New Business**

| Value of new business | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| First-year premium | 20,828 | 6,889 | 6,124 | 5,358 | 4,529 |
| Investment income | 941 | 902 | 869 | 829 | 789 |
| Underwriting exp | 22,105 | 7,174 | 6,387 | 5,615 | 4,790 |
| Other exp | 74 | 25 | 22 | 19 | 16 |
| Tax | 0 | 118 | 117 | 111 | 115 |
| Net CF | (411) | 474 | 467 | 442 | 460 |
| DCF | (411) | 423 | 372 | 315 | 293 |
| | | | | | |
| CF/share | (0.34) | 0.39 | 0.38 | 0.36 | 0.38 |
| DCF/share | (0.34) | 0.35 | 0.31 | 0.26 | 0.23 |
| | | | | | |
| VNB | 0.86 | | | | |

Sources: Company data; Thanachart estimates

**Ex 15: Forecasted Value of In-Force Business**

| Value-in-force | 2014F | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|
| Underwriting income | 52,077 | 35,100 | 32,372 | 29,818 | 27,442 |
| Investment income | 9,308 | 8,430 | 7,690 | 6,794 | 5,899 |
| Underwriting exp | 56,355 | 37,254 | 34,411 | 31,846 | 29,171 |
| Other exp | 185 | 126 | 117 | 104 | 96 |
| Tax | 969 | 1,230 | 1,107 | 932 | 815 |
| Net CF | 4,246 | 5,172 | 4,660 | 3,938 | 3,451 |
| DCF | 4,246 | 4,619 | 3,715 | 2,803 | 2,193 |
| | | | | | |
| CF/share | 3.50 | 4.26 | 3.84 | 3.25 | 2.85 |
| DCF/share | 3.50 | 3.81 | 3.06 | 2.31 | 1.81 |
| | | | | | |
| VIF | 17 | | | | |

Sources: Company data; Thanachart estimates

**Ex 16: 12-month DDM-based Valuation**

| (Bt m) | 2014F | 2015F | 2016F | 2017F | 2018F | 2019F | 2020F | 2021F | 2022F | 2023F | 2024F | Terminal Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividend of common shares | 124 | 965 | 1,177 | 1,338 | 1,618 | 1,915 | 2,287 | 2,714 | 5,659 | 6,941 | 8,471 | 31,210 |
| Dividend of preferred shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend Payment | 124 | 965 | 1,177 | 1,338 | 1,618 | 1,915 | 2,287 | 2,714 | 5,659 | 6,941 | 8,471 | 405,725 |

| | |
|---|---|
| Risk-free rate (%) | 4.5% |
| Market risk premium (%) | 7.5% |
| Beta | 1 |
| Cost of equity (%) | 12.0% |
| Terminal growth (%) | 4.0% |
| | |
| Equity value (Btbn) | 89,939 |
| No.of shares | 1,213 |
| **Equity value/ share** | **74** |

Sources: Company data, Thanachart estimates

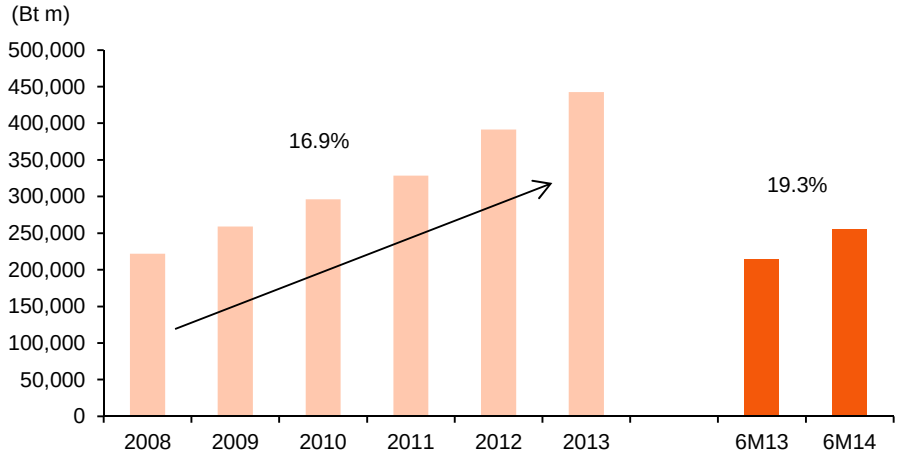
# Life insurance sector in Thailand

## Young and strong

***Definitely a sunrise business in our opinion***

Despite the political instability in Thailand over the past several years and the global financial crisis in 2008-09, the life insurance sector in Thailand has delivered uninterrupted premium growth for the past 10 years. Moreover, if we analyze further, we see that there was not a single down year during the above period which implies the sector is very resilient. In 2013, total life premiums sold reached a record figure of Bt442.50bn with a five-year premium growth CAGR of 16.9% for 2008-13. We believe the impressive growth was attributable to the breakthrough in bancassurance, and the fact that the life insurance sector remains under-penetrated. Against the backdrop of the weak Thai economy in 1H14, the sector still managed to grow its total premiums by 19.3% y-y (Exhibit 17).

**Ex 17: Premiums Consistently Growing**

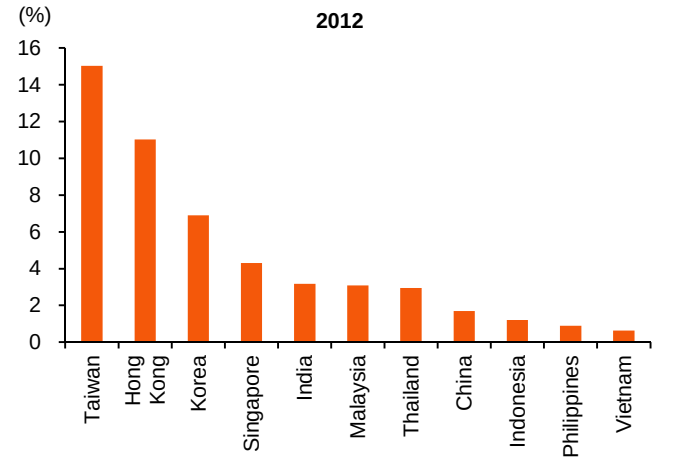



Source: Office of insurance commission

***We see plenty of growth opportunities***

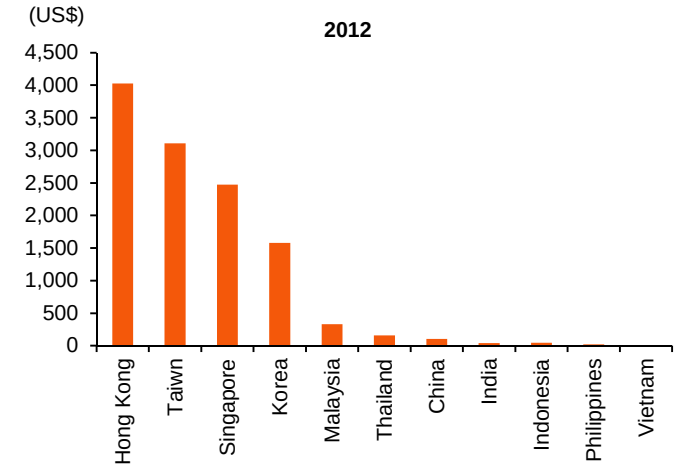
Comparing Thailand's life insurance sector with other countries in the world, we believe that Thailand still has more room to grow given that its insurance penetration as well as insurance density is relatively low. In 2012, Thailand had insurance premiums to total GDP (insurance penetration) of 3.0% which was lower than other countries in Asia such as Singapore and Malaysia (Exhibit 18). In terms of insurance density, this also indicates that Thailand has low level of insurance premiums among the population as a whole. Thailand in 2012 had an insurance density of US$157 which was much lower than Singapore's US$2,472 and Malaysia's at US$330 (Exhibit 19). We expect Thailand to continue to do much better both in insurance penetration as well as density given that there are still many under-insured people, and as Thais become more affluent.

**Ex 18: Low Penetration**




Source: Swiss Re

**Ex 19: Low Density**




Source: Swiss Re

## Growing bancassurance

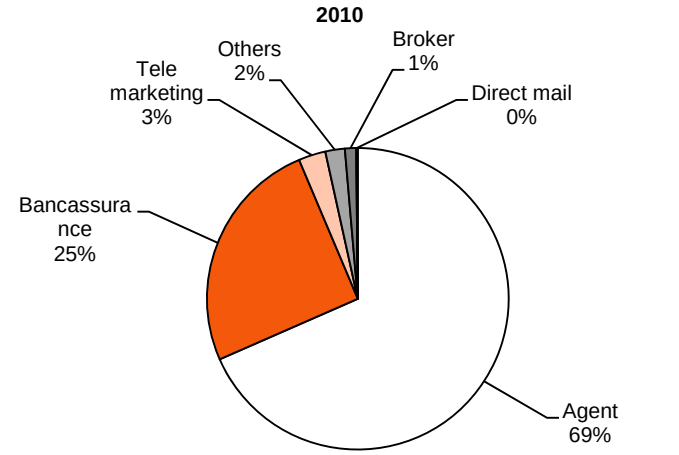
***A major shift in distribution channels***

Over the past five years, there was a big shift in the way insurers reached out to consumers. In 2010, 68.4% of insurance products were sold via agents (Exhibit 20). The importance of the agent channel has lessened given the bancassurance breakthrough in early 2000 when the Bank of Thailand granted universal banking licenses to commercial banks. Bancassurance's share jumped from 25.2% in 2010 to 43.1% as of June 2014 (Exhibit 21). Meanwhile, the share of other distribution channels remained unchanged at 6.0-6.2%. The lower share of the agent channel was in line with fewer people with insurance sales licenses.

***Firms that can balance its distribution channels have an edge over others***

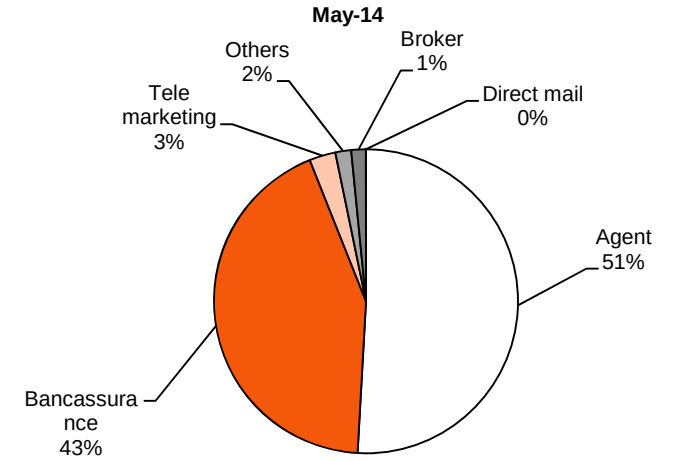
Looking ahead, we expect to see less and less insurance sold via agents (Exhibit 22) as fewer candidates have been taking the test to become a sale person together with a lower pass rate (Exhibit 23). Therefore, we see the bancassurance channel as well placed to gain further market share. However, we still believe the agent channel is still an integral part of the process as it can sell high-margin products more efficiently. Whole life and term policies require lot more effort and time to sell than endowment policies. On top of that, with customers' evolving needs, more and more sophisticated products such as unit-link and universal life look set to be sold in the future. Thus, we believe that insurance firms with ability to maintain a balance between both channels are going to have an edge over peers.

**Ex 20: Insurance Policies Sold Mainly By Agents …**



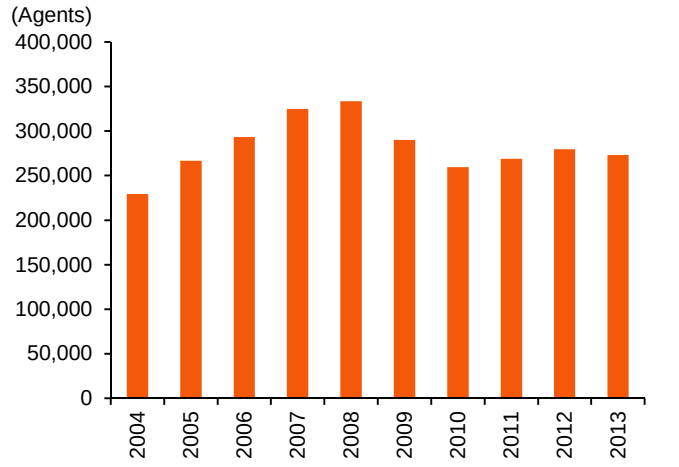

Source: Office of insurance commission

**Ex 21: … But Bancassurance Has Become More Popular**



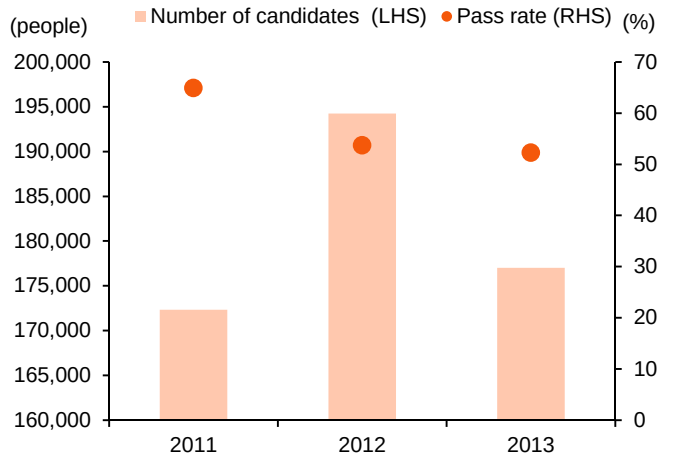

Source: Office of insurance commission

**Ex 22: Number Of Insurance Agents Has Been Stagnant**




Source: Office of insurance commission

**Ex 23: Fewer Exam Candidates With A 50% Pass Rate**

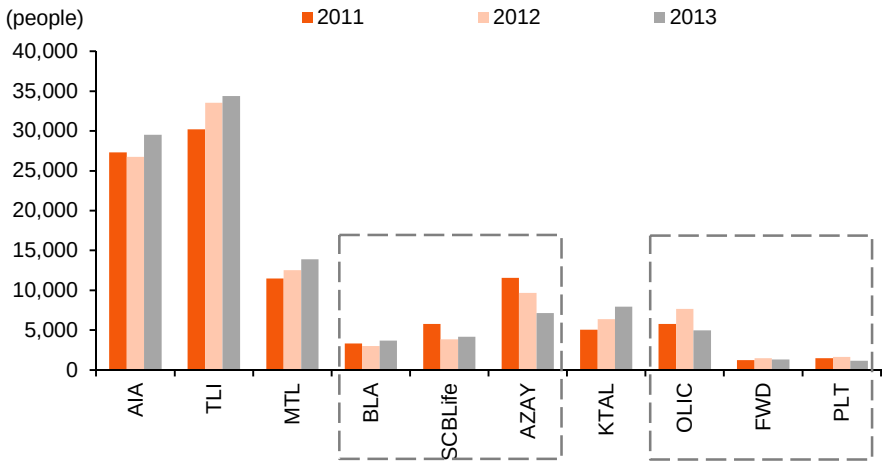



Source: Office of insurance commission

***MTL and KTAL are not complacent about their bancassurance channel***

Despite having presence in bancassurance, MTL and KTAL are still beefing up efforts to build up sales agent forces, as evidenced by the increase in number of their agent force over the past three years. On the other hand, BLA and SCBLife have depended on less number of sales agents (Exhibit 24). We expect this to pose a severe problem for them in the future if this trend continues, as they would be exposed to risk of over dependence on their banking channels which tend to sell more low-margin endowment policies.

**Ex 24: AIA,TLI, MTL And KTAL Have More Sales Representatives**




Source: Office of insurance commission

## Market position of each major life insurance player

The total insurance premium includes a first year premium (FYP), a renewal premium (RYP) and a single premium. Meanwhile, insurance products can be divided into the following four categories:

***Four sub-categories of insurance products***

1) Ordinary life insurance products (accounting for around 85% of total premiums in 2013): can be divided into four sub-categories.
   a. Endowment life insurance: Savings-type products; insured person receives an amount at a certain period of time or a designated beneficiary receives death benefits upon the death of the insured person within the insured period.
   b. Term life insurance: Provides temporary protection with no saving components. Claim can be made upon death within the stated term period.
   c. Whole life insurance: Provides life-time protection (up to the age of 90 or over) with the death benefit paid to the beneficiary upon the death of the insured.
   d. Rider: Additional coverage desired by the insured (medical expenses or accident).
2) Group life insurance product (accounted for around 12% of total premiums in 2013): a term insurance covering a group of people.
3) Industrial insurance products (representing around 2% of total premiums in 2013): life insurance with a modest amount of coverage, low premiums, and no health check requirements.
4) Personal accident (representing around 1% of total premiums in 2013): a limited life insurance policy designed to cover the insured in case of personal accident.

The total premium and the new business created each year are two parameters to analyze the market position of each insurance company. The higher the total premiums for each company, the bigger that company is. The total premium figure reflects the performance of a life insurance company. Meanwhile, analyzing new business generated helps to understand how much new business each insurance company can generate over a given period of time. New business includes first-year premiums and single premiums. Insurance companies prefer to have a higher portion from first-year premiums than single premiums given that people are likely to renew their insurance policies.

***MTL overtook AIA in terms of FYP for the first time in 1H14***

In terms of first-year premiums, MTL was ranked first with a 21.4% market share in 1H14. It has been gaining market share since 2008 when it had 8.2%. No.2 was AIA with a share of 16.4% which has been declining steadily from 28.6% since 2008 due to the growing popularity of bancassurance. In third, fourth and fifth places were KTAL, SCBLife and Thai Life Assurance (TLI) respectively. KTAL and SCBLife's market shares have increased from 2008. However, TLI's share has edged down slightly by 1.3% (Exhibit 25).

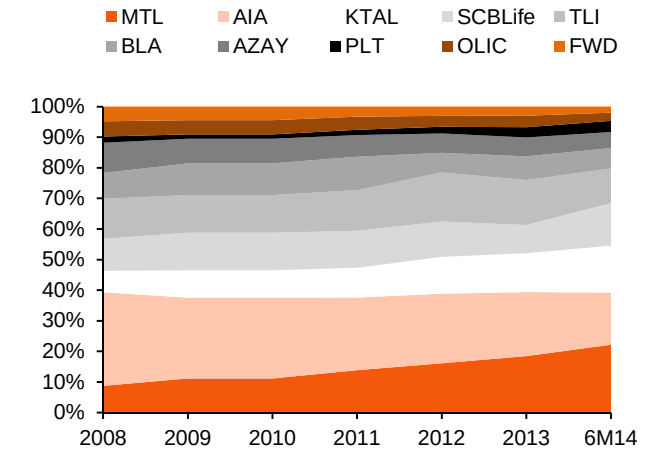
***BLA was top in terms of single premiums but this is not necessarily good news***

For single premiums, the market share of each company has swung drastically. We believe this was mainly a result of the new product launches by each insurance company. For example, BLA successfully launched the BLA 1st 116 5/1 product that saw its market share surge from 6.9% at end 2013 to 34.6% in 1H14 (Exhibit 26). However, as mentioned earlier, we consider this type of premium a double-edged sword. Although the company gained more share, we expect BLA to face difficulties in the following period as there is no repetitive payment, resulting in a lower market share in the following year.

***But AIA has maintained its position as number one in terms of total premiums***

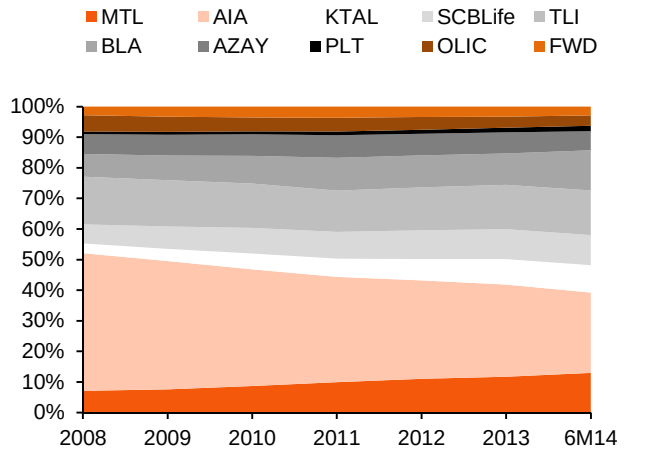
In terms of total market share, AIA was No.1 followed by MTL at 15.4%, BLA at 14.4%, TLI at 11.6% and SCBLife at 9.7% in 1H14. AIA and TLI have been losing their shares gradually since 2008. In contrast, MTL, BLA and SCBLife's shares have grown bigger and bigger (Exhibit 28). The growth of bancassurance with its share rising from 25.2% in 2010 to 43.1% now is weakening the position of agent-based insurance companies such as AIA and TLI.

**Ex 25: Market Share Of FYP**



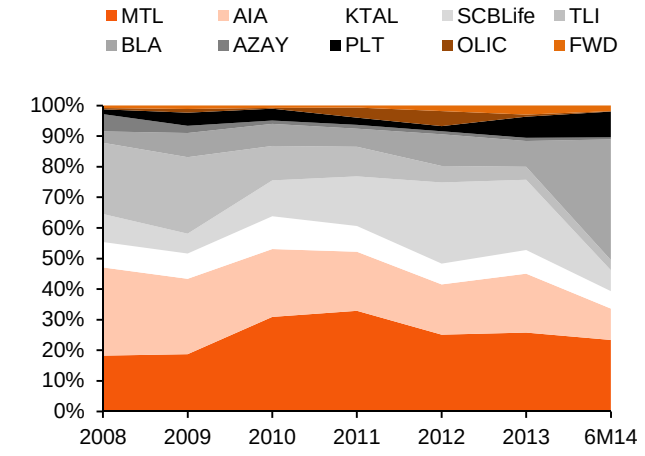

Source: Office of insurance commission

**Ex 26: Market Share Of RYP**



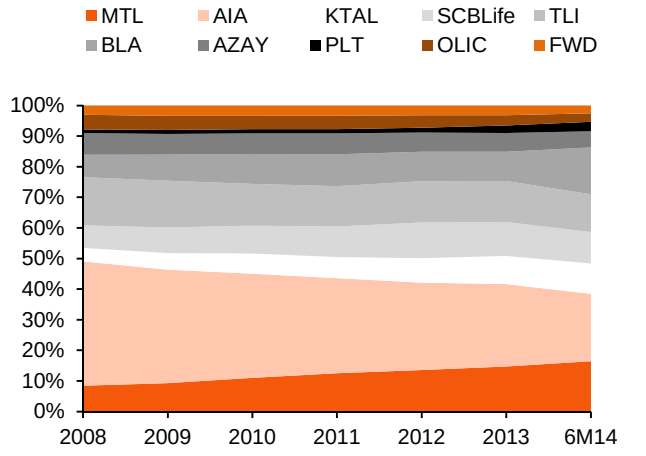

Source: Office of insurance commission

**Ex 27: Market Share Of Single Premiums**




Source: Office of insurance commission

**Ex 28: Market Share Of Total Premiums**




Source: Office of insurance commission

## In search of profitability

***Protection-based products have better margins than savings products***

Each type of policy has a different profit margin. A whole life policy with much longer payment period is subject to a lower policy reserve, and hence a higher margin than an endowment policy which is of shorter duration and another savings-type policy with a committed annual return above the market interest rate. As endowment policies are easy to sell, they are growing fast. Thus, in order to achieve a good balance of growth and return, an insurance firm has to ensure that it creates an optimal mix of endowment and whole life policies.

***MTL seems to have the best product mix among the four biggest banks in our view***

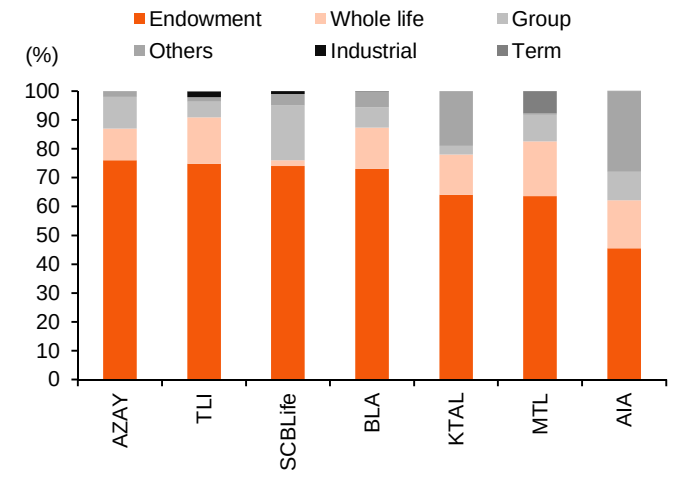
In Thailand, most of the policies sold are endowment products, representing around 70% of total premiums in 2013. Of the four biggest banks that sell their own insurance policies, MTL has the best product mix (Exhibit 29) in our view. MTL has protection-based products, i.e. whole life, term insurance and credit life at 36.0% of total premiums earned, whereas the other three have those products at proportions of only between 17.0-21.5%. BLA has the highest exposure to low-yield endowment policies and this explains why its ROA is the lowest among the top four bancassurance plays (Exhibit 30). The stronger growth of whole life policies and higher ROA of MTL and SCBLife can be also explained by KBANK and SCB's stronger market positions and higher exposure to retail lending which is the segment where banks can successfully cross-sell insurance products.

***BLA has the highest life reserve as it appears to have the riskiest portfolio***

Exhibit 29 below shows a comparison of the reserve to total premium ratio of each insurance firm. Driven by better policy mix, MTL has set aside lower reserves than KTAL, SCBLife and BLA. Meanwhile, with its long history and larger portfolio, AIA's reserve ratio is among the lowest in the industry.

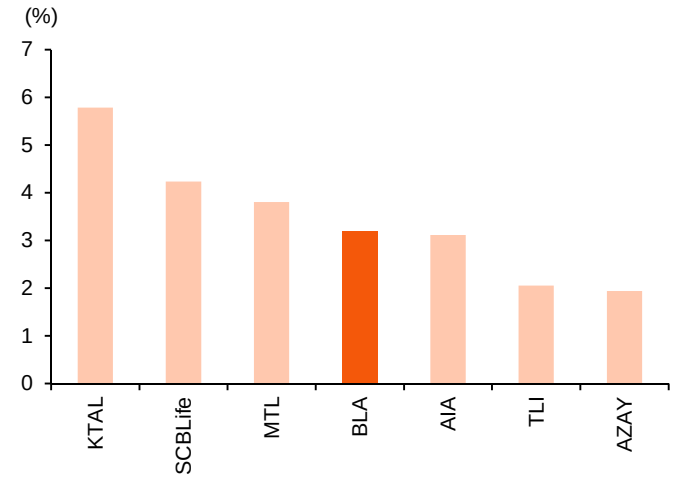
Capital adequacy ratio (CAR) is another important metric for every insurance firm. It gives an idea about how much total capital each company has to total capital required. This ratio has to be above 140% according to the OIC. As of 2013, AIA was considered the strongest firm with a CAR of more than 500% (Exhibit 32).

**Ex 29: Product Mix Of Major Life Insurance Companies**



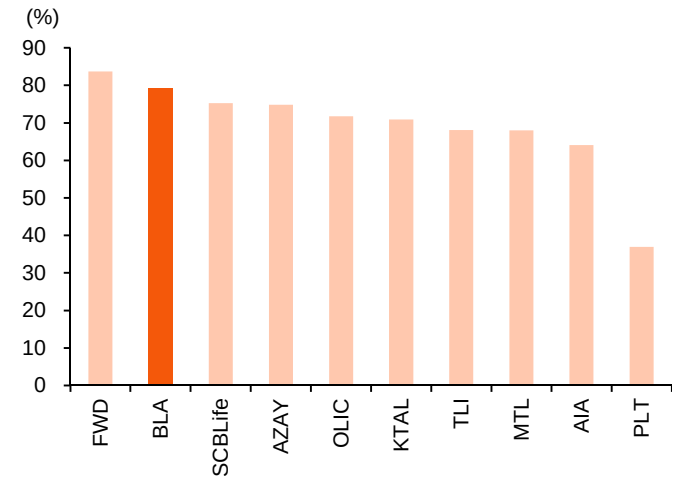

Sources: AZAY,TLI,SCBLife,BLA,KTAL,MTL,AIA

**Ex 30: ROA Of Each Major Player**



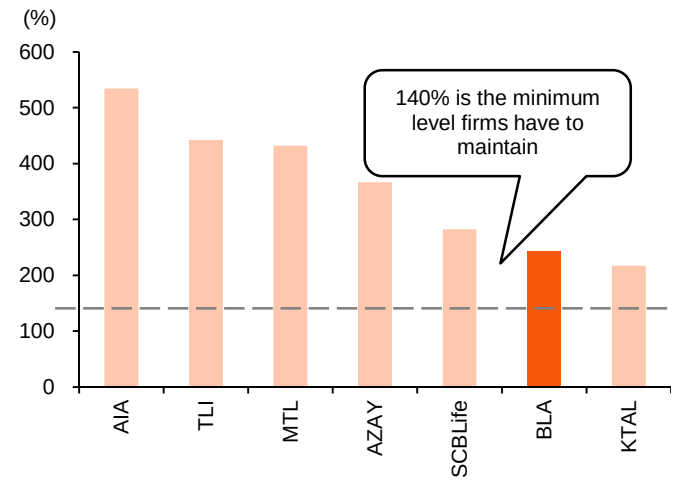

Source: Office of insurance commission

**Ex 31: Reserve Comparison**




Source: Office of insurance commission

**Ex 32: CAR Of Each Insurance Company**



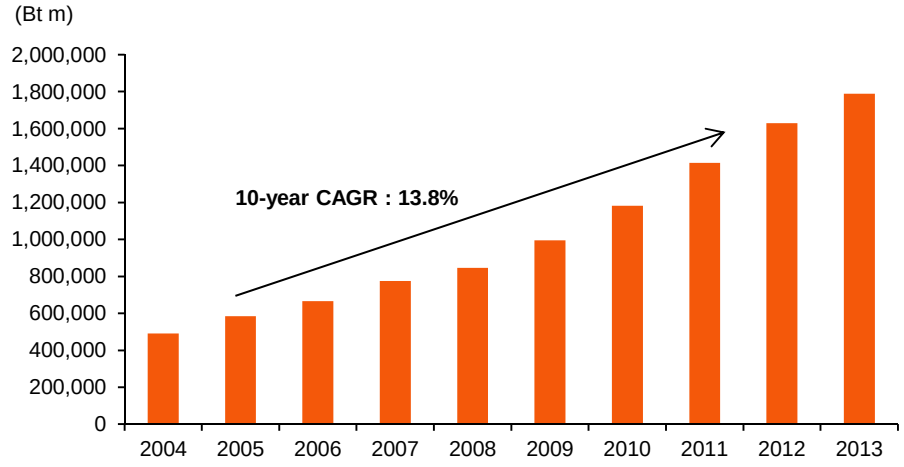

Source: Office of insurance commission

## Investment is another growth engine

***Snowball effect resulting in an enormous float with a 10-year CAGR of 13.8%***

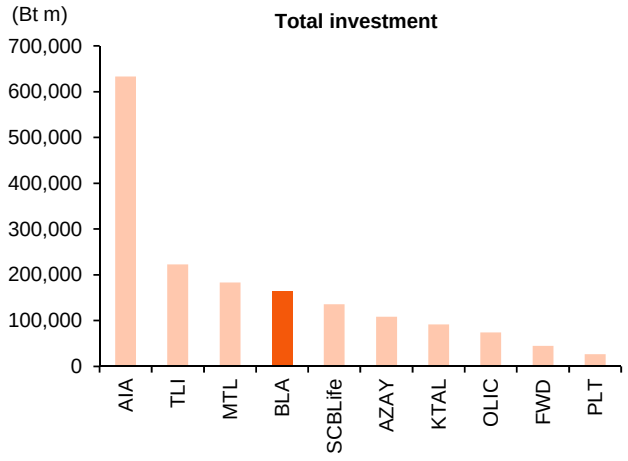
Investment assets for the life insurance sector posted a record high of Bt1.79trn in 2013 with a 10-year CAGR of 13.8% (Exhibit 33). AIA was in pole position with its assets under management (AUM) of Bt633bn, double the level of TLI which was in second place (Exhibit 34). Most insurance firms' assets are dedicated to investment assets, i.e. bonds and equity and most of the companies had investment assets to total assets of more than 90%. ROI for the industry was consistently in the range of 4.7-5.3%. The companies that outperformed most in 2013 among the largest eight life insurance companies were KTAL and AIA with ROI of 5.3%, while the biggest underperformer was TLI with an ROI of 4.7% (see Exhibit 35)

**Ex 33: Steady Increase In Investment Assets Of Life Insurance Companies In Thailand**



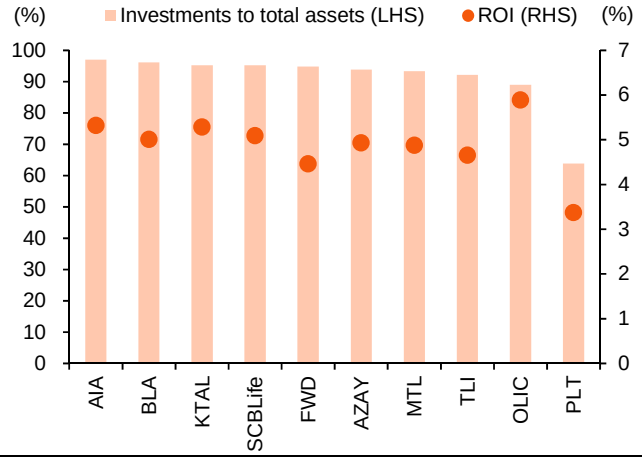

Source: Office of insurance commission

**Ex 34: AIA Has The Biggest Portfolio**




Source: Office of insurance commission

**Ex 35: ROI Was At 4.7-5.3% in 2013**




Source: Office of insurance commission

# Valuation Comparison

**Ex 36: Valuation Comparison With Regional Peers**

| | | | EPS growth | | — PE — | | — P/BV — | | – ROE – | | — Div. Yield — | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **BBG Code** | **Country** | **14F** | **15F** | **14F** | **15F** | **14F** | **15F** | **14F** | **15F** | **14F** | **15F** |
| | | | **(%)** | **(%)** | **(x)** | **(x)** | **(x)** | **(x)** | **(%)** | **(%)** | **(%)** | **(%)** |
| China Life Insurance | 601628 CH | China | 27.0 | 15.9 | 14.2 | 12.3 | 1.8 | 1.6 | 12.8 | 13.6 | 2.3 | 2.5 |
| China Pacific Insurance | 601601 CH | China | 26.2 | 19.2 | 16.0 | 13.4 | 1.7 | 1.5 | 10.0 | 10.4 | 2.2 | 2.5 |
| Ping An Insurance Group | 601318 CH | China | 22.4 | 19.5 | 10.1 | 8.5 | 1.6 | 1.4 | 16.8 | 16.2 | 1.8 | 2.1 |
| China Life Insurance | 2628 HK | Hong Kong | 30.8 | 16.2 | 20.8 | 17.9 | 2.7 | 2.4 | 13.7 | 14.1 | 1.5 | 1.7 |
| Ping An Insurance Group | 2318 HK | Hong Kong | 23.5 | 14.7 | 15.0 | 13.1 | 2.4 | 2.1 | 16.2 | 15.8 | 1.1 | 1.3 |
| LPI Capital | LPI MK | Malaysia | 9.7 | 11.0 | 17.0 | 15.4 | 2.3 | 2.2 | 13.5 | 14.2 | 4.6 | 5.1 |
| Dongbu Insurance | 005830 KS | South Korea | (0.7) | 13.2 | 9.3 | 8.2 | 1.3 | 1.1 | 14.4 | 14.3 | 2.3 | 2.7 |
| Hyundai Marine & Fire | 001450 KS | South Korea | (22.7) | 30.3 | 9.7 | 7.5 | 1.1 | 1.0 | 12.6 | 14.3 | 2.6 | 3.4 |
| LIG Insurance | 002550 KS | South Korea | 17.4 | 27.2 | 7.8 | 6.1 | 0.9 | 0.8 | 12.6 | 14.0 | 3.0 | 3.8 |
| Meritz Fire & Marine | 000060 KS | South Korea | 5.8 | 21.9 | 9.6 | 7.9 | 1.2 | 1.0 | 13.3 | 14.4 | 2.7 | 3.4 |
| Samsung Fire & Marine | 000810 KS | South Korea | 13.8 | 15.9 | 13.8 | 11.9 | 1.3 | 1.2 | 10.2 | 10.6 | 1.9 | 2.2 |
| Cathay Financial Holding | 2882 TT | Taiwan | 265.2 | (9.4) | 15.7 | 17.4 | na | na | na | na | 2.4 | 2.1 |
| China Life Insurance | 2823 TT | Taiwan | 2.9 | 10.0 | 16.5 | 15.0 | na | na | na | na | 1.3 | 1.4 |
| Shin Kong Financial | 2888 TT | Taiwan | na | 13.2 | 11.8 | 10.4 | na | na | na | na | 0.5 | 0.6 |
| Bangkok Insurance | BKI TB | Thailand | 4.0 | 7.7 | 20.9 | 19.4 | 1.2 | 1.2 | 8.2 | 8.5 | 3.4 | 3.4 |
| Bangkok Life Assurance | BLA TB | Thailand | (43.4) | 94.5 | 42.5 | 21.9 | 4.3 | 3.7 | 10.6 | 18.2 | 0.1 | 0.9 |
| Thai Reinsurance | THRE TB | Thailand | na | na | na | 17.0 | 3.6 | 2.9 | na | 18.0 | 0.0 | 0.7 |
| Thaire Life Assurance | THREL TB | Thailand | 2.1 | 17.0 | 24.6 | 21.0 | 8.3 | 7.0 | 36.1 | 35.5 | 2.7 | 3.1 |
| **Average** | | | **25.5** | **20.1** | **15.7** | **13.1** | **2.0** | **1.7** | **12.7** | **14.0** | **2.0** | **2.3** |

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS

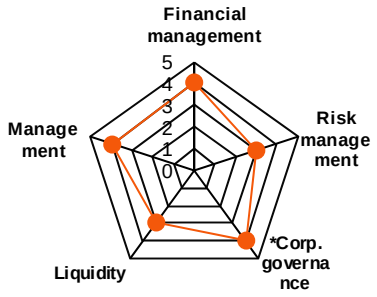
Based on 8 September 2014 closing prices

## COMPANY DESCRIPTION

Bangkok Life Assurance's (BLA) core business is life insurance. At present, the company operates two principal types of life insurance business, namely ordinary life insurance and group life insurance. Its major and strategic shareholders are Bangkok Bank Public Company Limited and Nippon Life Insurance Company, which is incorporated in Japan.

Source: Thanachart

## COMPANY RATING




| Rating Scale | |
|---|---|
| Very Strong | 5 |
| Strong | 4 |
| Good | 3 |
| Fair | 2 |
| Weak | 1 |
| None | 0 |

Source: Thanachart; *CG Awards

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Nippon Life Insurance Company as a strategic shareholder
- Ability to sell its insurance policies via BBL's branches.

### W — Weakness

- Fewer sales agents almost every year.
- Inability to sell high-margin products.
- Lowest CAR ratio among the big players.
- Over reliance on the banking channel.

### O — Opportunity

- Fast-growing industry with more room to grow.
- Future M&As as the sector may consolidate.

### T — Threat

- The upcoming RBC Phase II that could have a negative effect on BLA.
- Changes in regulations which might pressure BLA to recognize more reserve.
- Swings in market interest rates.

## CONSENSUS COMPARISON

| | Consensus | Thanachart | Diff |
|---|---|---|---|
| **Target price (Bt)** | 77.00 | 74.00 | -4% |
| **Net profit 14F (Bt m)** | 4,268 | 2,481 | -42% |
| **Net profit 15F (Bt m)** | 5,472 | 4,827 | -12% |
| **Consensus REC** | **BUY: 3** | **HOLD: 4** | **SELL: 7** |

Sources: Bloomberg consensus, Thanachart estimates

## HOW ARE WE DIFFERENT FROM THE STREET?

- We assume that BLA will book more additional life reserves of Bt350m in 2H14F as bond yield have continued to drop since 2Q14.
- We assume life policy reserves to remain high at 71-76% during 2014-18F as BLA has a low CAR ratio.

## RISKS TO OUR INVESTMENT CASE

- Swings in market interest rates that might force BLA to recognize more extra reserves in 2H14F.
- More premium sales than expected in 4Q14F may help BLA to record higher-than-expected net profits.

Source: Thanachart

*2015F premium likely to drop as we don't think BLA will continue to sell low-margin single premiums as in 1H14*

*Weak 2014F net income as we forecast BLA to record another extra reserve during 2H14*

*Investment assets comprise the biggest portion of BLA's assets*

**INCOME STATEMENT**

| FY ending Dec (Bt m) | 2012A | 2013A | 2014F | 2015F | 2016F |
|---|---|---|---|---|---|
| Insurance premium | 34,128 | 38,795 | 53,077 | 46,176 | 52,042 |
| Less Life policy reserve | 22,873 | 25,357 | 42,538 | 34,370 | 37,991 |
| **Net insurance premium** | **11,255** | **13,438** | **10,538** | **11,806** | **14,051** |
| % of life policy reserve | 30.7% | 28.4% | 29.6% | 21.6% | 20.7% |
| Underwriting expenses | 11,094 | 13,939 | 14,856 | 14,638 | 17,330 |
| Profit from insurance | **161** | **(501)** | **(4,318)** | **(2,832)** | **(3,279)** |
| Revenue on investment | 6,165 | 7,601 | 9,372 | 11,200 | 13,271 |
| Others | 20 | 39 | 53 | 46 | 52 |
| **Non-underwriting Income** | **6,185** | **7,640** | **9,425** | **11,246** | **13,323** |
| % of total income | 97.5% | 107.0% | 184.5% | 133.7% | 132.6% |
| **Total Income** | 6,346 | 7,139 | 5,107 | 8,414 | 10,044 |
| Operating Expenses | 1,488 | 1,720 | 1,911 | 2,214 | 2,499 |
| **Profit from operation** | 4,858 | 5,419 | 3,196 | 6,200 | 7,545 |
| Obligation expenses | **94** | **108** | **188** | **166** | **187** |
| **Pre-tax Profit** | 4,764 | 5,311 | 3,008 | 6,033 | 7,358 |
| Income Tax | **1,041** | **930** | **526** | **1,207** | **1,472** |
| After Tax Profit | 3,723 | 4,381 | 2,481 | 4,827 | 5,886 |
| Equity Income | 0 | 0 | 0 | 0 | 0 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 |
| **NET PROFIT** | **3,723** | **4,381** | **2,481** | **4,827** | **5,886** |
| **Normalized Profit** | **3,723** | **4,381** | **2,481** | **4,827** | **5,886** |
| EPS (Bt) | 3.1 | 3.6 | 2.0 | 4.0 | 4.9 |
| Normalized EPS (Bt) | 3.1 | 3.6 | 2.0 | 4.0 | 4.9 |

**BALANCE SHEET**

| FY ending Dec (Bt m) | 2012A | 2013A | 2014F | 2015F | 2016F |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| **Liquid Items** | **4,489** | **5,823** | **7,555** | **8,286** | **9,382** |
| cash & cash equivalents | 866 | 1,331 | 2,000 | 2,000 | 2,000 |
| accrued investment income | 1,500 | 1,863 | 2,265 | 2,713 | 3,221 |
| Securities under resale agreement | 1,613 | 1,840 | 2,209 | 2,633 | 3,101 |
| Investments | 134,979 | 161,126 | 198,404 | 231,145 | 268,045 |
| **Net loans** | **2,649** | **3,526** | **4,463** | **5,200** | **6,030** |
| Gross and accrued interest | 2,649 | 3,526 | 4,463 | 5,200 | 6,030 |
| Provisions for doubtful | 0 | 0 | 0 | 0 | 0 |
| Fixed assets - net | 305 | 327 | 406 | 442 | 475 |
| Other assets | 1,145 | 1,433 | 1,025 | 1,689 | 2,016 |
| **Total assets** | **143,567** | **172,234** | **211,853** | **246,761** | **285,948** |
| **LIABILITIES:** | | | | | |
| **Liquid Items** | **1,182** | **1,657** | **1,759** | **1,917** | **2,110** |
| Securities sold under repurchase | 200 | 950 | 998 | 1,047 | 1,100 |
| Income tax payable | 582 | 257 | 146 | 334 | 407 |
| Amount due to reinsurer | 400 | 450 | 616 | 536 | 604 |
| Life policy reserve | 111,259 | 136,616 | 179,155 | 213,525 | 251,516 |
| Other liabilities | 2,875 | 2,897 | 3,129 | 3,285 | 3,449 |
| **Total liabilities** | **124,103** | **149,971** | **187,221** | **218,268** | **252,745** |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| **Shareholders' equity** | **19,465** | **22,264** | **24,632** | **28,494** | **33,203** |
| Preferred capital | 0 | 0 | 0 | 0 | 0 |
| Paid-in capital | 1,205 | 1,212 | 1,213 | 1,213 | 1,213 |
| Share premium | 2,759 | 2,846 | 2,857 | 2,857 | 2,857 |
| Surplus/ Others | 5,217 | 4,459 | 4,459 | 4,459 | 4,459 |
| Retained earnings | 10,283 | 13,747 | 16,104 | 19,966 | 24,675 |
| **Liabilities & equity** | **143,567** | **172,234** | **211,853** | **246,761** | **285,948** |

Sources: Company data, Thanachart estimates

*Jump in PE in 2014F as we expect earnings to be weak this year*

## VALUATION

| FY ending Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|---|---|---|---|---|---|
| Normalized PE (x) | 28.1 | 24.0 | 42.5 | 21.9 | 17.9 |
| Normalized PE - at target price (x) | 23.9 | 20.4 | 36.2 | 18.6 | 15.2 |
| PE (x) | 28.1 | 24.0 | 42.5 | 21.9 | 17.9 |
| PE - at target price (x) | 23.9 | 20.4 | 36.2 | 18.6 | 15.2 |
| P/PPP (x) | 21.5 | 19.4 | 33.0 | 17.0 | 14.0 |
| P/PPP - at target price (x) | 18.3 | 16.5 | 28.1 | 14.5 | 11.9 |
| P/BV (x) | 5.4 | 4.7 | 4.3 | 3.7 | 3.2 |
| P/BV - at target price (x) | 4.6 | 4.0 | 3.6 | 3.1 | 2.7 |
| Dividend yield (%) | 0.8 | 0.9 | 0.1 | 0.9 | 1.1 |
| Market cap / net loans (x) | 39.8 | 29.9 | 23.6 | 20.3 | 17.5 |
| Market cap / deposit (x) | 527.5 | 111.1 | 105.8 | 100.7 | 95.9 |
| **(Bt)** | | | | | |
| Normalized EPS | 3.1 | 3.6 | 2.0 | 4.0 | 4.9 |
| EPS | 3.1 | 3.6 | 2.0 | 4.0 | 4.9 |
| DPS | 0.7 | 0.8 | 0.1 | 0.8 | 1.0 |
| PPP/Share | 4.0 | 4.5 | 2.6 | 5.1 | 6.2 |
| BV/share | 16.1 | 18.4 | 20.3 | 23.5 | 27.4 |

*We forecast ROI to gradually increase as we expect interest rates to rise from 2015 onwards*

## FINANCIAL RATIOS

| FY ending Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|---|---|---|---|---|---|
| **Growth Rate** | | | | | |
| Net premium written (%) | 9.9 | 13.7 | 36.8 | (13.0) | 12.7 |
| Life policy reserves (%) | 13.3 | 10.9 | 67.8 | (19.2) | 10.5 |
| Underwriting expenses (%) | 14.0 | 25.6 | 6.6 | (1.5) | 18.4 |
| Insurance profits (%) | (85.9) | na | na | na | na |
| Net profit (%) | 9.0 | 17.6 | (43.4) | 94.5 | 22.0 |
| Normalized profit growth (%) | 9.4 | 17.6 | (43.4) | 94.5 | 22.0 |
| EPS (%) | 8.9 | 16.8 | (43.4) | 94.5 | 22.0 |
| Normalized EPS (%) | 9.3 | 16.8 | (43.4) | 94.5 | 22.0 |
| Dividend payout ratio (%) | 22.5 | 20.9 | 5.0 | 20.0 | 20.0 |
| Total FYP (%) | (5.0) | 9.5 | 1.9 | (3.8) | 0.0 |
| Total premium (%) | (27.7) | (34.7) | 73.8 | 24.8 | 19.2 |
| Total investment assets (%) | 30.8 | 19.6 | 23.2 | 16.5 | 16.0 |
| Total assets (%) | 27.3 | 20.0 | 23.0 | 16.5 | 15.9 |
| Total equity (%) | 46.6 | 14.4 | 10.6 | 15.7 | 16.5 |
| **Operating Ratios (%)** | | | | | |
| Profit on underwriting to net earned prem. | 0.5 | (1.3) | (8.1) | (6.1) | (6.3) |
| Underwriting exp. to net earned premium | 99.5 | 101.3 | 108.1 | 106.1 | 106.3 |
| Investment yield (ROI) | 5.1 | 5.0 | 5.1 | 5.1 | 5.2 |
| Net profit margin | 9.2 | 9.4 | 4.0 | 8.4 | 9.0 |
| ROE | 22.7 | 21.0 | 10.6 | 18.2 | 19.1 |
| Loss ratio | 23.4 | 28.0 | 20.0 | 23.0 | 24.0 |
| Expense ratio | 1.1 | 1.0 | 1.0 | 1.2 | 1.3 |
| Commission ratio | 8.1 | 7.0 | 7.0 | 7.5 | 8.0 |
| ROA | 2.9 | 2.8 | 1.3 | 2.1 | 2.2 |
| ROE | 22.7 | 21.0 | 10.6 | 18.2 | 19.1 |
| D/E (x) | 6.4 | 6.7 | 7.6 | 7.7 | 7.6 |
| Policy reserve to capital fund (x) | 5.7 | 6.1 | 7.3 | 7.5 | 7.6 |
| Insurance contract liab. to invest. asset (x) | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Total CAR | 268.0 | 247.0 | 258.3 | 256.5 | 257.9 |

Sources: Company data, Thanachart estimates

## General Disclaimers And Disclosures:

This report is prepared and issued by Thanachart Securities Public Company Limited (TNS) as a resource only for clients of TNS, Thanachart Capital Public Company Limited (TCAP) and its group companies. Copyright © Thanachart Securities Public Company Limited. All rights reserved. The report may not be reproduced in whole or in part or delivered to other persons without our written consent.

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

## Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word “Positive”, is used when we see the industry trend improving. An arrow pointing down, or the word “Negative”, is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word “Unchanged”, is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

**Thanachart Securities Pcl.**
Research Team
28 Floor, Siam Tower Unit A1
989 Rama 1, Pathumwan Road, Bangkok 10330
Tel: 662 - 617 4900
Email: research@thanachartsec.co.th

**Pimpaka Nichgaroon, CFA**
Head of Research
Economics & Strategy
pimpaka.nic@thanachartsec.co.th

**Supanna Suwankird**
Energy, Utilities
supanna.suw@thanachartsec.co.th

**Siriporn Arunothai**
Ad Hoc Research, Healthcare
siriporn.aru@thanachartsec.co.th

**Sarachada Sornsong**
Banks, Telecom
sarachada.sor@thanachartsec.co.th

**Saksid Phadthananarak**
Construction, Transportation
saksid.pha@thanachartsec.co.th

**Noppadol Pririyawut**
Senior Technical Analyst
noppadol.pri@thanachartsec.co.th

**Phannarai Tiyapittayarut**
Property, Retail
phannarai.von@thanachartsec.co.th

**Kalvalee Thongsomaung**
Food, Hotel, Media
kalvalee.tho@thanachartsec.co.th

**Adisak Phupiphathirungul, CFA**
Retail Market Strategy
adisak.phu@thanachartsec.co.th