BUALUANG SECURITIES

COMPANY UPDATE

Bangkok Life Assurance

BLA TB / BLA.BK

19 May 2015

Focus on high-margin products to boost earnings growth

Investment thesis

BLA is well positioned for higher margin products, such as whole life, longer-term endowment and credit life. All products need lower provisions for the life-policy reserve than we currently assume in our model. This would mean scope for upside to our projections (as would higher interest rates in 4Q15). However, taking a conservative stance, we have maintained our FY15 profit forecasts of Bt4.4bn for FY15, up 65% YoY, and Bt5bn for FY15, up 14% YoY. Our BUY rating stands with a YE15 TP of Bt67, pegged to embedded value of Bt31.26/share and total VNB of Bt35.8.

Emphasis on bottom-line growth, led by high-margin products

BLA has switched focus from short-term policies in FY14 to long-term policies (whole life, credit life and long-term endowments such as Gain 1st 245) in FY15. The policy change implies BLA intends to drive the bottom line instead of top line (via high-margin products). Note that we forecast its FY15 FYP and total premium will drop 10% and 8%, respectively. Meanwhile, BLA is collaborating with Thaire Life (THREL), in plans to launch its first healthcare product in 2H15 through agent channels and direct TV. We do not plug in this product in our model.

Provision returns to normal after extra item in 1Q15

The emphasis on long-term products with fatter margins will mean lower provisions for the life-policy reserve in FY15, following heavy FY14 provisions of Bt41bn (about 80% of total premiums). BLA doesn't expect to set an extra provision for interest-rate risk in the remaining periods of the year following setting Bt1.73bn in 1Q15 and Bt3.3bn in FY14. It guides for 2Q15-4Q15 provisions to come in the range of 67-70% of total premiums (against 77% in 1Q15 and 80% in FY14). Note that we expect provisions to equal 70% of total premiums in FY15. In any case, BLA expects some reverse of the provision for interest-rate risk into revenue if the interest rate trend turns around in late FY15.

Cut FY15 ROI target to slightly below 5% from lower interest rate

Management guides for FY15 ROI to stay slightly below 5% (excluding investment gain) from its old level of 5%. The possibility of high bond yields late this year would present BLA with a chance to accrue more long-term bonds. The firm invests Bt20bn (11% of total investment) in foreign currency-denominated bonds that yield about 6%. Note that we forecast BLA to have FY15 ROI of 4.8% (excluding investment gain).

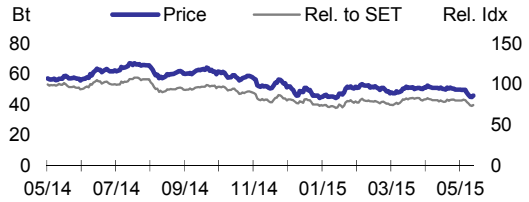
Robust CAR to ensure long-term expansion with no cash call

Given its greater emphasis on higher margin products, BLA's YE15 CAR is expected to stay over 400% from 410% at YE14. The management guides that a strong CAR will allow BLA to be more aggressive with higher-yield assets (such as structured notes and infrastructure funds) in order to strengthen its ROI as well. Its CAR was 407% in 1Q15.

Sector: Insurance Overweight

Rating: BUY
Target Price: Bt67.00
Price (18 May 2015)**: Bt45.50**

Price chart

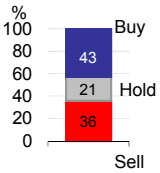


Share price perf. (%)	1M	3M	12M
Relative to SET	(6.8)	(6.8)	(47.7)
Absolute	(10.2)	(12.8)	(40.1)

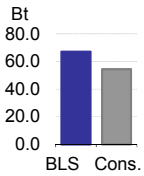
Key statistics

Market cap	Bt78.3bn	USD2.3bn
12-mth price range	Bt44.0/Bt95.5	
12-mth avg daily volume	Bt98m	USD2.9m
# of shares (m)	1,702	
Est. free float (%)	40.8	
Foreign limit (%)	25.0	

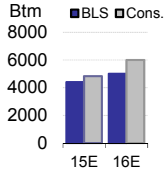
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Total rev (Btm)	61,427	57,601	61,590	66,504
Net profit (Btm)	2,662	4,400	5,000	5,600
Fully diluted EPS (Bt)	1.56	2.58	2.93	3.28
EPS growth (%)	-39.2%	+65.3%	+13.6%	+12.0%
PER (x)	29.5	17.9	15.7	14.0
EV/EBITDA (x)	24.2	13.4	11.7	9.9
PBV (x)	3.57	3.07	2.79	2.45
Dividend (Bt)	0.51	1.10	1.20	1.30
ROA (%)	1.2	1.9	1.8	1.7
Net gearing (x)	7.2	6.8	7.4	7.5
Total loss ratio (%)	79.8	70.0	70.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

CG rating

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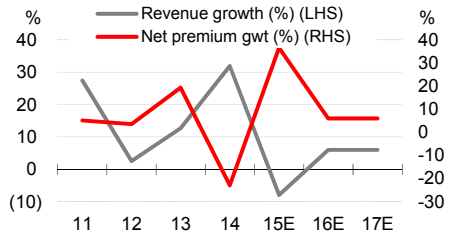
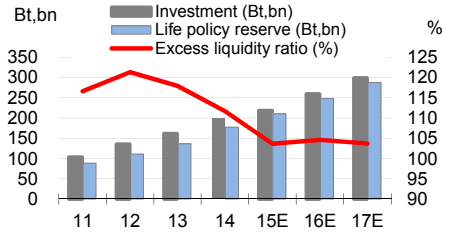
BLA : Financial Tables – Year

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)	(32,977)	(34,956)	(37,053)
Net premium	**13,438**	**10,354**	**14,133**	**14,981**	**15,880**
Underwriting expenses	(13,939)	(15,531)	(16,919)	(17,934)	(19,274)
Profit from insurance	**(501)**	**(5,177)**	**(2,786)**	**(2,953)**	**(3,395)**
Revenue on investment	7,601	10,255	10,491	11,653	13,571
Other income/exp.	39	48	44	47	50
Net revenue	**7,139**	**5,126**	**7,750**	**8,747**	**10,227**
Operating expenses	(1,828)	(2,018)	(2,295)	(2,596)	(2,944)
EBIT	**5,311**	**3,108**	**5,455**	**6,151**	**7,282**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(1,055)	(1,151)	(1,682)
Net profit (loss)	**4,381**	**2,662**	**4,400**	**5,000**	**5,600**
Reported EPS	3.62	1.56	2.58	2.93	3.28
Fully diluted EPS	**3.62**	**1.56**	**2.58**	**2.93**	**3.28**
Core net profit	**4,341**	**2,614**	**4,356**	**4,953**	**5,550**
Core EPS	3.58	1.53	2.55	2.90	3.25
EBITDA	**5,407**	**3,204**	**5,550**	**6,247**	**7,378**
KEY RATIOS					
Revenue growth (%)	12.7	31.9	(7.9)	6.0	6.0
Gross margin (%)	15.4	8.3	13.4	14.2	15.4
EBITDA margin (%)	11.6	5.2	9.6	10.1	11.1
Operating margin (%)	9.4	4.3	7.6	8.0	8.3
Net margin (%)	9.4	4.3	7.6	8.1	8.4
Core profit margin (%)	9.4	4.3	7.6	8.0	8.3
ROA (%)	2.5	1.2	1.9	1.8	1.7
ROE (%)	19.7	10.4	14.8	15.3	15.0
Commission/Insurance premium	11.2	9.3	13.0	13.0	13.5
Life policy Provision/insurance premium re	65.4	79.8	70.0	70.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	110.8	111.1	112.0
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	6,000	2,200	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	770	910	992
Other assets	5,925	6,520	6,709	7,597	11,710
Total assets	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
Life policy reserve	136,616	177,435	210,412	248,017	287,720
Unpaid benefit to life policy	8,800	1,489	(8,382)	(6,771)	(5,327)
Premium received in advance	950	2,239	0	0	0
Other liabilities	3,604	8,851	5,092	2,158	1,490
Total liabilities	**149,971**	**190,013**	**207,122**	**243,405**	**283,883**
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	24,985	27,899	32,559
Shareholders equity	**22,264**	**25,576**	**29,784**	**32,698**	**37,358**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
CASH FLOW (Btm)					
Net income	4,381	2,662	4,400	5,000	5,600
Depreciation and amortization	136	143	150	157	165
Change in working capital	23,571	39,586	33,882	35,950	38,570
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**38,432**	**41,107**	**44,335**
Capex (Invest)/Divest	(88)	(126)	(381)	(140)	(82)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(25,755)**	**(41,295)**	**(38,845)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	1
Dividend payment	(917)	(678)	(871)	(1,879)	(1,440)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from financing activities	**(107)**	**(678)**	**(871)**	**(1,879)**	**(1,438)**
Net change in cash	465	5,183	11,806	(2,066)	4,052
Free cash flow (Btm)	**28,000**	**42,264**	**38,051**	**40,967**	**44,253**
FCF per share (Bt)	**23.1**	**24.7**	**22.3**	**24.0**	**25.9**
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

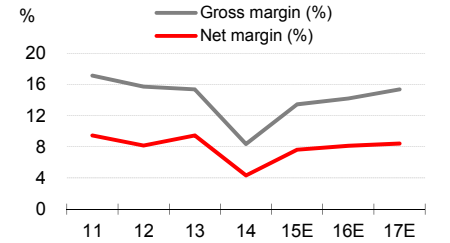
Revenue and net premium growth



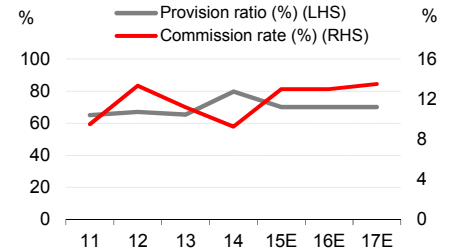
Excess liquidity



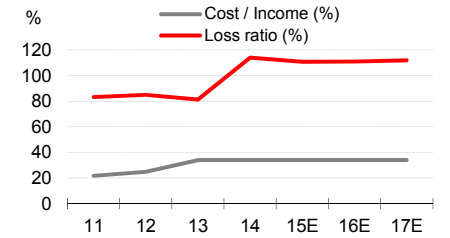
Profit margins



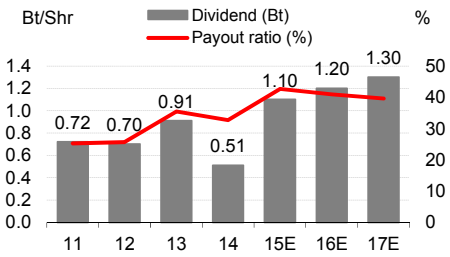
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA : Financial Tables – Quarter

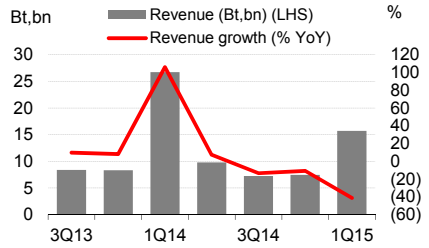
QUARTERLY PROFIT & LOSS (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Net insurance premium revenue	26,712	9,769	7,245	7,446	15,711
Less provision for life policy reserve	22,415	8,099	7,118	3,187	12,104
Revenue realization on premium	4,297	1,670	127	4,260	3,607
Underw riting expenses	4,525	3,497	3,389	4,120	5,746
Profit from insurance business	(228)	(1,828)	(3,261)	140	(2,139)
Net investment income	2,014	2,153	2,386	2,259	2,511
Gain on investment	8	322	162	951	1,010
Total revenue from investment	2,022	2,475	2,548	3,210	3,522
Other income	9	17	10	13	15
Total revenues	1,803	664	(703)	3,362	1,398
Total operating expenses	496	501	482	539	498
Exceptional items	0	0	0	0	0
EBT	1,307	163	(1,185)	2,823	900
Income tax	211	(6)	(304)	546	135
Minority Interest	0	0	(0)	(0)	0
Net profit	1,096	169	(881)	2,278	765
EPS	1	0	(1)	1	0
Core profit before tax	1,290	(175)	(1,357)	1,859	(126)
Core EPS	1	(0)	(1)	1	(0)

KEY RATIOS					
Premium/life policy reserve (%)	67	23	17	17	33
Life policy provision/Premium (%)	84	83	98	43	77
Claim/life policy (%)	8	6	5	7	24
ROI (%)	5	5	5	6	7
Net margin (%)	4	1	(9)	21	4
Equity/Life policy reserve (%)	16	15	14	14	14
BV (Bt)	20	20	20	21	15
ROE (%)	20	3	(14)	38	12
ROA (%)	3	0	(2)	4	1
D/E (x)	7	7	7	8	7
Cost to Income (%)	28	75	(69)	16	36

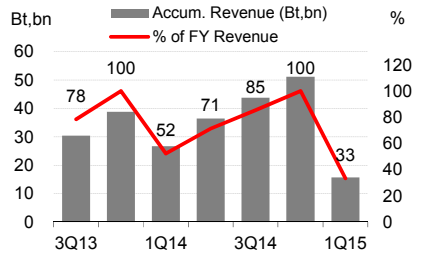
QUARTERLY BALANCE SHEET (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Cash & Equivalent	1,810	2,800	2,184	5,708	1,405
Total investment in securities	182,310	190,289	196,098	198,238	212,733
Total net loans	3,645	3,939	4,323	4,735	4,938
Premises & equipment (Net)	336	358	388	389	460
Other assets	8,807	7,618	7,435	6,520	10,524
Total assets	196,908	205,003	210,428	215,590	230,061
Life policy reserve	159,031	168,314	174,248	177,435	189,539
Unpaid benefit to life policy	9,033	427	91	1,489	1,690
Premium received in advance	551	504	487	380	566
Other liabilities	4,224	11,438	11,607	10,710	12,498
Total liabilities	172,839	180,683	186,434	190,013	204,293
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	14,321	13,872	12,449	14,678	15,443
Shareholders equity	24,069	24,320	23,994	25,576	25,768
Minority interests	0	0	0	0	0

Insurance data	1Q14	2Q14	3Q14	4Q14	1Q15
FYP (Btm)	2,861	642	757	768	1,672
RYP (Btm)	12,251	8,103	6,147	6,240	13,914
SP (Btm)	11,885	1,154	472	530	436
Total premium (Btm)	26,997	9,899	7,376	7,538	16,022
FYP+SP mkt (%)	29.1	4.3	3.2	3.2	5.3
Total premium Mkt (%)	20.0	8.2	6.3	5.8	12.0

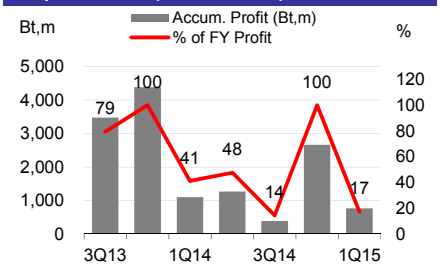
Revenue trend



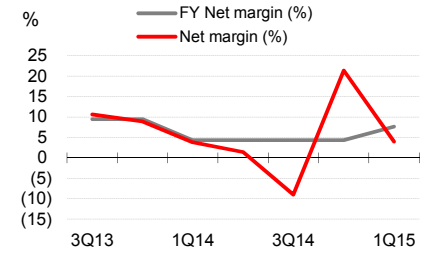
Revenue trend (accumulated)



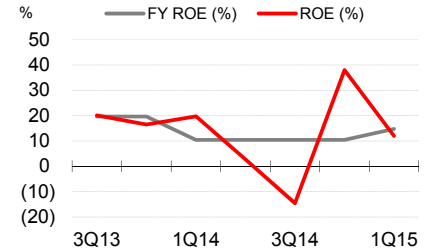
Net profit trend (accumulated)



Net margin



ROE



Company profile

Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average. The firm ranked fifth with a market share of 10% for FY14 total life assurance premiums.

Figure 1: Total life assurance premium market share (%), FY03-1Q15

Market share of Total premium (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	1Q15
American International Assurances (AIA)	38.9	37.9	33.3	31.0	28.7	26.3	24.99	22.8	20.61
Audhya Allianz C.P Life Plc., (AZAY)	9.5	6.5	6.1	6.2	6.3	5.8	5.67	5.4	5.09
Thai Life Insurance	15.2	14.4	13.7	12.4	12.2	12.5	12.44	12.5	11.36
SCB Life Insurance Plc	6.0	6.8	7.5	8.3	9.2	10.7	10.28	9.6	10.38
Muang Thai Life Assurance	6.8	7.7	8.3	10.0	11.5	12.5	13.62	14.9	17.73
Bangkok Life Assurance Plc.,	**6.1**	**6.7**	**7.7**	**8.9**	**9.6**	**8.9**	**8.83**	**10.3**	**11.98**
Krungthai AXA Life Insurance	2.9	4.1	4.9	6.0	6.4	7.4	8.53	9.7	9.79
Ocean Life Insurance	4.6	4.3	4.1	3.9	4.0	3.8	3.08	2.9	2.36
Prudential Life Assurance (Thailand) Plc.,	0.9	1.1	1.2	1.2	1.3	1.4	2.32	3.1	3.16
Others	3.2	4.2	6.6	5.5	4.9	5.5	10.24	8.8	7.54
Total	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100

Sources: TLAA and Bualuang estimates

Figure 2: BLA's net investment income (Btm) and net ROI (%), FY05-FY14 and Investment asset breakdown, FY08-1Q15

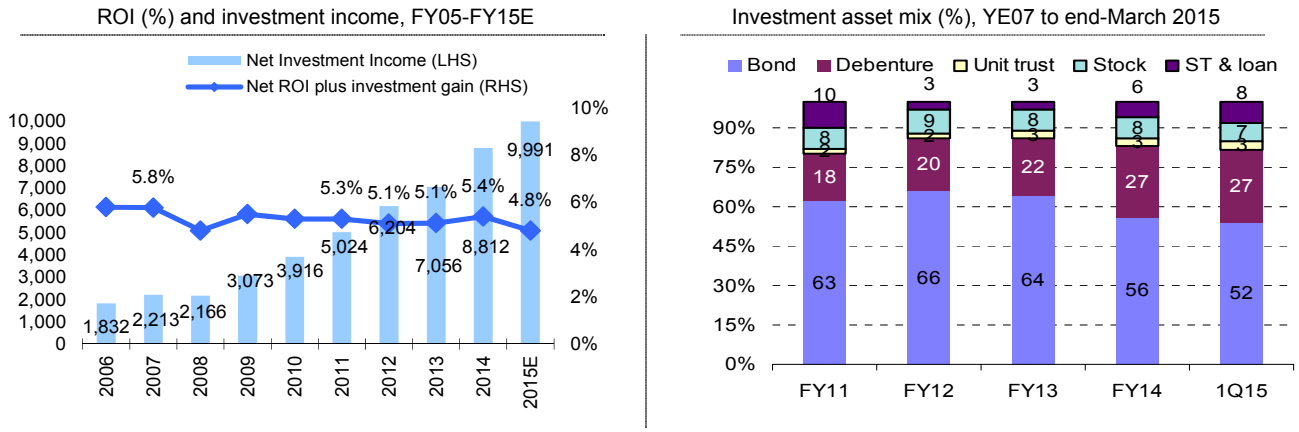
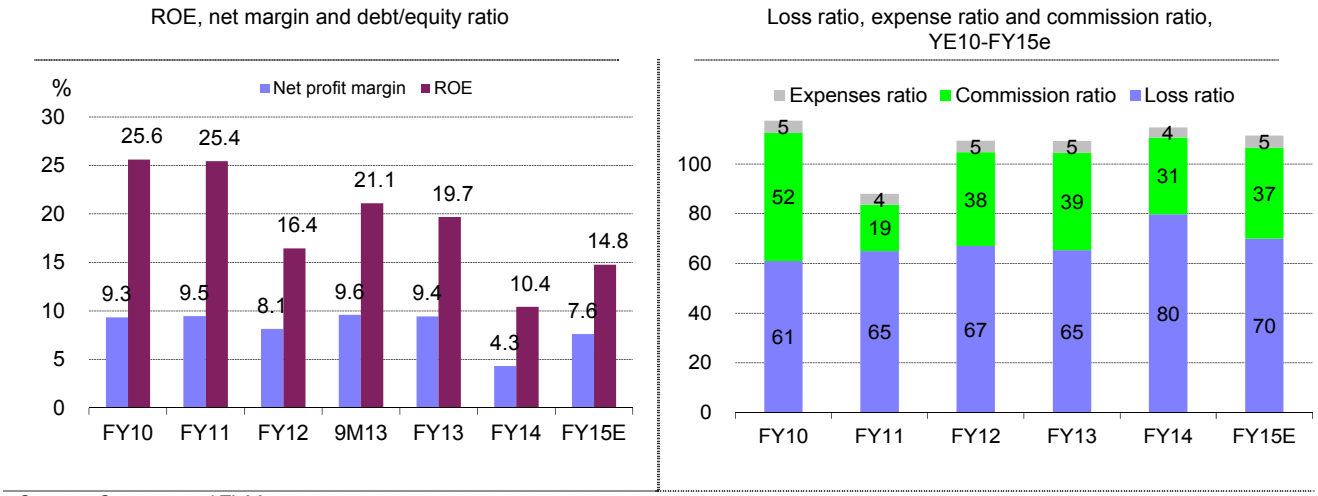


Figure 3: Net margin (%), ROE (%) and debt/equity ratio, YE10-FY15e, and Combined ratio (%)

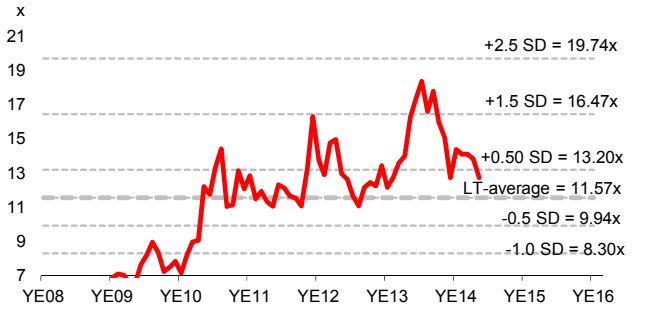


Sources: Company and TLAA

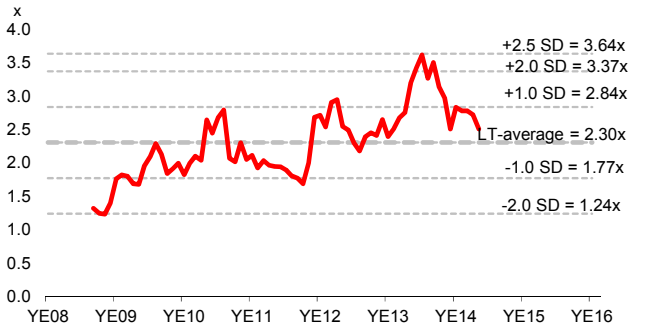
Regional Comparisons

	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	CNY84.4	126,741	15.3	13.2	12.1	17.8	2.2	1.9	16.9	17.0	1.0	1.1
China Life Insurance	601628 CH	CNY36.9	159,487	24.6	20.9	31.8	18.6	3.3	2.9	13.7	14.3	1.4	1.5
China Pacific Insurance (Group	601601 CH	CNY33.5	48,633	20.7	17.8	32.5	17.6	2.2	2.0	12.6	12.9	1.7	2.0
T&D Holdings	8795 JP	JPY1,683.5	9,608	12.6	11.9	11.9	6.4	0.8	0.8	6.8	6.7	1.7	1.8
Bangkok Life Assurance	BLA TB	THB46.00	2,339	17.9	15.7	65.3	13.6	2.6	2.4	14.8	15.3	2.4	2.6
Thaire Life Assurance	THREL TB	THB13.40	240	17.5	15.5	23.5	13.3	6.0	5.4	36.4	36.9	4.0	4.6
Simple average				**18.1**	**15.8**	**29.5**	**14.5**	**2.9**	**2.6**	**16.8**	**17.2**	**2.0**	**2.3**

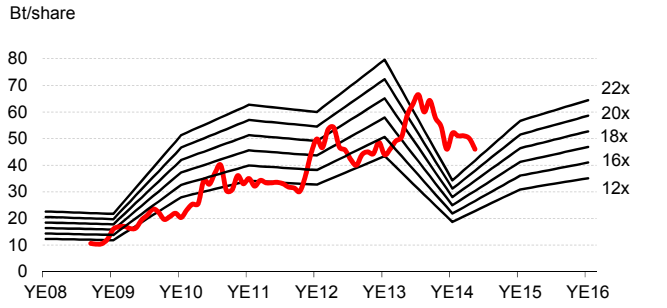
PER band versus SD (next 12 months)



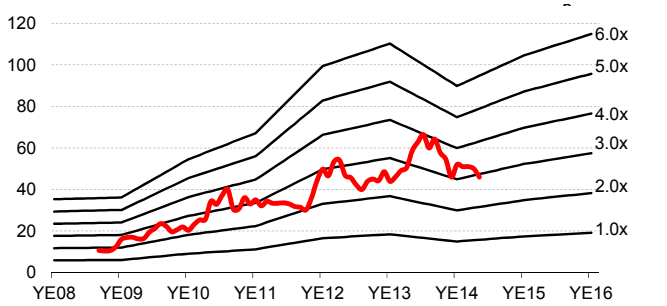
PER band versus SD (next 12 months)



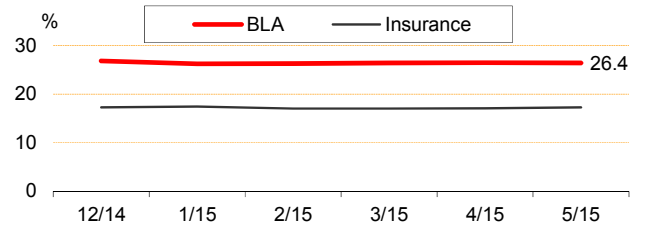
PER band and share price



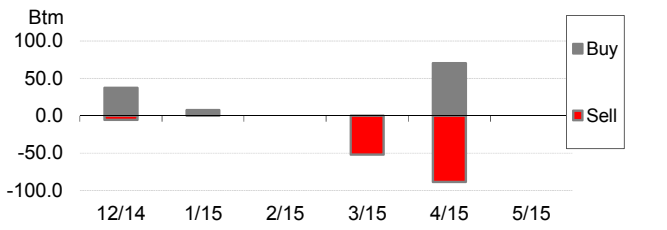
PBV band and share price



Foreign holding



Management trading activities during past six months



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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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.