Industry Update

ASIA PLUS Securities

Tuesday, September 8, 2015

Insurance Sector

Renewal-year premium boosts life premium in 7M15

Gross life premium income in 7M15 grew only 3.7%yoy as a result of the slowing economy. Income from new businesses plummeted, while renewal-year premium income increased less than the targets of the OIC and TLAA. BLA is still a top pick.

- 7M15 life premium income suppressed by slowing economy

The life insurance business in 7M15 was still similar to that in 1H15. Direct life premium income was B304bn, growing only 3.7%yoy (a growth of 2.79%yoy to B262bn in 1H15); renewal-year premium income increased 10.2%yoy to B208bn, while income from new businesses dropped 8.1%yoy to B96.0bn (income from the new businesses includes first-year premium and single premium). Overall, gross direct life premium income growth in 7M15 was still lower than the OIC's target of 8.0%yoy and the TLAA's target of 7%yoy. First-year premium income rose 5%yoy, single premium income decreased 7.6%yoy, and renewal-year premium income increased 11%yoy. 7M15 first-year premium income declined significantly because most insurance companies had launched a number of short-term products in 2014, while new short-term products in 2015 have not received good response because of the slowing economy. 7M15 renewal-year premium income could show growth, but surrendering of insurance contacts was also high because of decreasing purchasing power of consumers. Although persistency rate in 7M15 was 83% of the contracts sold in the prior year, it decreased from previously.

- Good profit from non-life business in 3Q15

The overall business in 3Q15 is still similar to that in 2Q15 due to the slowing economy and a low season. However, an accelerated growth is foreseen in 4Q15, which is a high season. BLA's net profit would contract in 3Q15 for there is no reversal of premium reserve expense like in 2Q15. Earnings from non-life business would outperform the life business, especially THRE and BKI that would show higher profit growth from 2Q15 because of a decreasing combined ratio despite sluggish gross premium income growth.

- BLA is top pick

We select BLA as a top pick of the sector. The share price has undergone significant correction until it is traded at 1SD below a 10-year average, based on PBV of 3.8x. The share price is believed to outperform the market average in the next three months as the company's earnings likely have already passed the year's low. 2015 fair value, using a method of appraisal value, is B66.35 (embedded value is 25.03, while the rest is from a multiplier of 2014 VNB of B0.67).

Key Data (Bm) *FY: Dec 31*	FY13A	FY14A	FY15F	FY16F	FY17F
Net Profit	7,984	9,919	15,708	15,565	17,432
EPS (B)	477	588	1,284	1,272	1,425
P/E Ratio (X)	30.5	26.9	12.2	12.3	11.0
BVS (B)	3,983	4,842	7,701	8,718	9,858
PBV (X)	3.7	3.3	2.0	1.8	1.6
ROAE	12.3%	13.4%	17.9%	15.5%	15.3%
ROAA	2.5%	3.0%	4.4%	4.0%	4.0%

Source : ASPS Research

INSURANCE

Rec: NEUTRAL

Sector Index : 15,692.10

SET Index : 1,371.40

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