Bangkok Life Assurance

Still not a point to accumulate

We reiterate to sell BLA. Although the share price has already undergone substantial correction, reflecting bad earnings from LAT reserve provision as a result of decreasing bond yield curve, a rebound is still unlikely because of the continuously declining bond yield curve. We recommend buying BKI for dividend yield instead.

■ Plunging bond yield affects 4Q15 earnings

We project BLA to face a net loss of B1.25bn in 4Q15. A ratio of premium reserve expense to total premium income is projected to continue rising to 90.5% as a result of liability adequacy test (LAT) provision of B4.9bn after a 10-year bond yield curve has dropped as much as 38bp to 2.51% at end-2015. Fortunately, BLA usually adjusts its assumption for provision calculation according to a Gross Premium Valuation (GPV) method at the end of every year to reflect the actual situation, so GPV provision would lower in value and there would be a reversal of provision as income, which would help compensate for a decreasing interest rate.

■ 2016 forecast still has downside

We maintain our earnings forecast for 2016-2017 but may have to make a revision, especially for 2016, because a ratio of premium reserve expense to total premium income would continue rising as a result of a downtrend of 10-year bond yield curve. According to BLA's rough estimate, every 25bp decrease in the interest rate would affect the net profit by B2bn. Regarding a premium income, BLA estimates a growth at not lower than 10%yoy, mostly from first-year premiums; the company is still focusing on protection products, while it still has to launch savings products but would increase a proportion of mid-term products in order to maintain market share and capital adequacy ratio (CAR).

■ Loss likely in 4Q15

A bond yield curve as of January 29, 2016 was 2.36% or a decrease of 15bp from end-2015. Accordingly, BLA is likely to continue facing loss in 1Q16 because there will not be an aid from assumption adjustment like in 4Q15 and total premium income growth would normalize after staying unusually high in 4Q15.

■ Sell. Dividend yield is limited

We recommend selling BLA. 2016 fair value from appraisal value method is B52 (embedded value of B22.19 and multiplier of 2014 VNB of B0.67), which barely provides an upside. Although a downside is limited, the share price would still be suppressed by dull earnings in 1Q16.

Key Data

FY: Dec 31	FY13A	FY14A	FY15F	FY16F	FY17F
Net Profit (Million B)	4,381	2,662	574	2,761	3,434
EPS (B)	3.62	1.57	0.34	1.62	2.02
Norm. Profit (Million B)	4,381	2,662	574	2,761	3,434
BVS (B)	18.37	15.06	15.26	16.45	17.90
PER (x)	14.3	33.0	153.5	31.9	25.7
PBV (x)	2.8	3.4	3.4	3.1	2.9
DPS (B)	0.91	0.51	0.11	0.53	0.66
Dividend Yield (%)	1.8%	1.0%	0.2%	1.0%	1.3%
ROE (%)	21.0%	11.1%	2.2%	10.2%	11.7%

Source : ASPS Research

BLA

Rec.: SELL

Current Price (B): 48.50

Target Price (B): 52.00

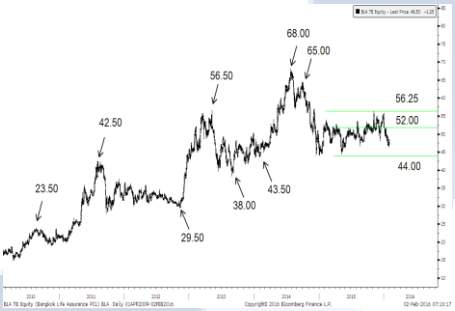
Upside : 7.22%

Dividend Yield : 0.28%

Total Return : 9.10%

Market Cap. (Million B) : 82,346

Technical Chart



ASPS vs IAA Consensus

EPS (B)	ASPS	IAA Cons	% diff
2016F	1.62	2.04	-20%
2017F	2.02	3.25	-38%

Source: ASPS and IAA consensus

CG Score : 4 = Very Good
Anti-corruption Progress Indic. 4 = Certified

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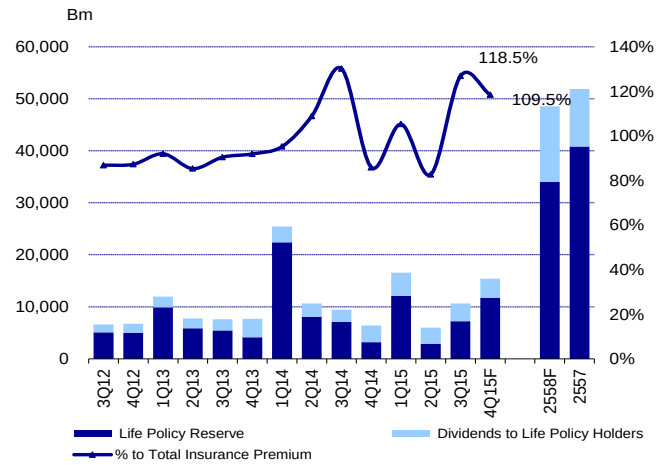
This report is a rough translation of one of our Thai-language research products. It is produced primarily with time efficiency in mind, so that English-reading clients can see what the main recommendations are from our Thai-language research team. Given that this is a rough-and-ready translation, Asia Plus Securities cannot be held responsible for translation inaccuracies.) The reports and information contained herein are compiled from public data sources and our analysts' interviews with executives of listed companies. They are presented for informational purposes only and not to be deemed as solicitations to buy or sell any securities. Best attempts have been made to verify information from these vast sources, but we cannot guarantee their accuracy, adequacy, completeness and timeliness. The analyses and comments presented herein are opinions of our analysts and do not necessarily reflect the views of Asia Plus Securities.

4Q15 and 2015 Earnings Forecast

Bm	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15F	%QoQ	%YoY	2015F	2014	%YoY
Net Premium Income	9,769	7,245	7,446	15,711	7,252	8,368	13,000	*55.4%*	*74.6%*	44,331	51,172	*-13.4%*
Net Investment Income	2,475	2,578	3,213	3,527	2,546	2,769	2,830	*2.2%*	*-11.9%*	11,672	10,326	*13.0%*
Total Income	**12,260**	**9,804**	**10,669**	**19,248**	**9,849**	**11,187**	**15,863**	*41.8%*	*48.7%*	**56,148**	**61,475**	*-8.7%*
Underwriting Expenses	(11,596)	(10,507)	(7,306)	(17,850)	(7,033)	(11,710)	(16,662)	*42.3%*	*128.0%*	(53,255)	(56,349)	*-5.5%*
Operating Expenses	(501)	(482)	(539)	(498)	(571)	(551)	(584)	*6.0%*	*8.3%*	(2,204)	(2,018)	*9.2%*
Total Expenses	**(12,097)**	**(10,988)**	**(7,845)**	**(18,348)**	**(7,605)**	**(12,261)**	**(17,245)**	*40.7%*	*119.8%*	**(55,459)**	**(58,367)**	*-5.0%*
Pre-tax Profi	**163**	**(1,185)**	**2,823**	**900**	**2,245**	**(1,074)**	**(1,382)**	*n.m.*	*n.m.*	**689**	**3,108**	*-77.8%*
Income Tax	6	304	(546)	(135)	(400)	287	133	*-53.7%*	*-124.4%*	(115)	(446)	*-74.3%*
Net Profit	**169**	**(881)**	**2,278**	**765**	**1,844**	**(786)**	**(1,249)**	*58.9%*	*-154.9%*	**574**	**2,662**	*-78.4%*
EPS (B)	**0.10**	**(0.52)**	**1.34**	**0.45**	**1.09**	**(0.46)**	**(0.74)**	*58.9%*	*-154.9%*	**0.34**	**1.57**	*-78.4%*
Norm Profit	1,297	1,175	1,323	1,483	2,059	1,444	731	*-49.4%*	*-44.8%*	5,716	2,662	*114.7%*
Gross Margin	-18.7%	-45.0%	1.9%	-13.6%	3.0%	-39.9%	-28.2%			-20.1%	-10.1%	
ROI	5.31%	5.34%	6.52%	6.87%	4.66%	4.91%	4.95%			6.04%	5.24%	
ROE	2.79%	-14.58%	36.76%	11.92%	27.76%	-11.95%	-19.77%			2.38%	10.74%	
Life Policy Reserve to Net Premium	82.9%	98.2%	42.8%	77.0%	40.1%	86.5%	90.5%			76.7%	79.8%	
Life Policy Reserve and Claims on life policy to Net Pren	108.9%	130.2%	85.9%	105.3%	82.7%	126.9%	118.5%			0.0%	101.5%	
Operating expenses/ Investment assets	1.1%	1.0%	1.1%	1.0%	1.0%	1.0%	1.0%			1.1%	1.0%	
Spread (ROI-Operating expenses/ Investment assets)	4.2%	4.3%	5.4%	5.9%	3.6%	3.9%	3.9%			4.9%	4.2%	
Income Tax ratio	-3.4%	25.7%	19.3%	15.0%	17.8%	26.7%	9.6%			16.7%	14.4%	

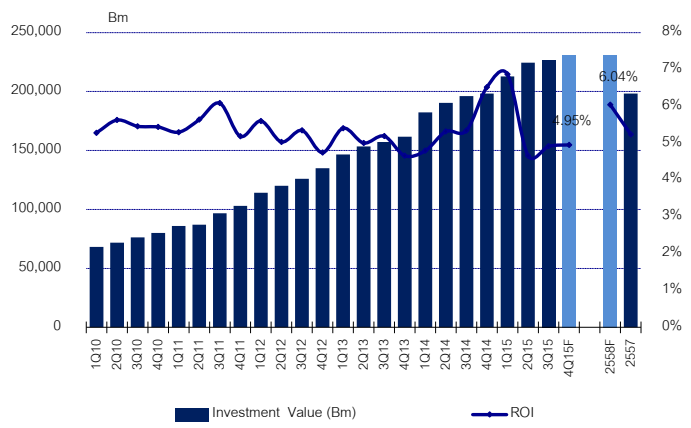
Source: Financial Statement/ ASPS Research

Premium Reserve Expense, Benefit Payment Expense and Total Premium Income by Quarter



Source: Financial Statement/ ASPS Research

Return On Investment (ROI) by Quarter

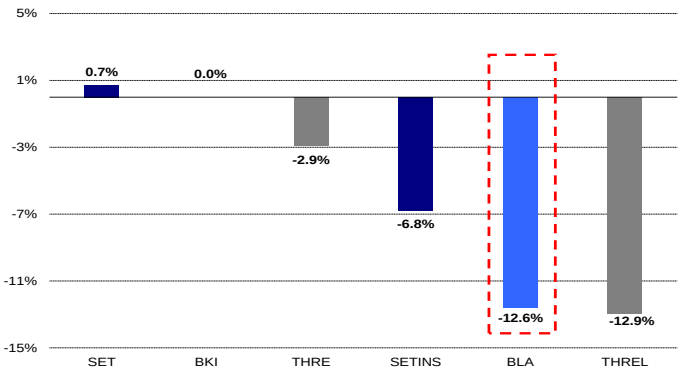


Source: Financial Statement/ ASPS Research

Historical PBV Band

Source: Bloomberg

Year-To-Date Returns



Source: Compiled by ASPS Research

2015-2017 Earnings Forecast

Income Statement (Million B)				
Ended 31 Dec.	2014	2015F	2016F	2017F
Net premium income	51,172	39,863	42,255	45,635
Net investment income	8,812	10,200	12,350	14,000
Gain/(Loss) on investment in securities	1,515	1,200	500	500
Other income	48	-	-	-
Total revenues	**61,475**	**51,263**	**55,105**	**60,135**
Underwriting expenses	(56,349)	(48,368)	(49,091)	(53,016)
Operating expenses	(2,018)	(2,247)	(2,562)	(2,827)
Fx gains/ (loss)	-	-	-	-
Total expenses	**(58,367)**	**(50,615)**	**(51,653)**	**(55,843)**
Net profit Before taxes	**3,108**	**648**	**3,452**	**4,292**
Income taxes	(446)	(74)	(690)	(858)
Net profit	**2,662**	**574**	**2,761**	**3,434**
EPS (B)	1.57	0.34	1.62	2.02
Norm profit	**2,662**	**574**	**2,761**	**3,434**
Norm EPS (B)	**1.57**	**0.34**	**1.62**	**2.02**

Balance Sheet (Million B)				
Ended 31 Dec.	2014	2015F	2016F	2017F
Investment in securities	198,238	230,376	251,447	283,127
Net loans	4,735	5,209	5,729	6,302
Cash and Deposits at FI	5,708	1,767	1,047	1,797
Property, plant and equipment, net	389	428	471	518
Other assets	6,520	8,062	10,228	13,315
Total assets	**215,590**	**245,841**	**268,922**	**305,059**
Life Premium Reserve	177,435	197,435	217,435	250,000
Other liabilities	12,579	22,483	23,745	25,090
Total liabilities	**190,013**	**219,918**	**241,179**	**275,090**
Paid-up share captial	**1,698**	**1,702**	**1,702**	**1,702**
Share premium	3,091	3,229	3,229	3,229
Surplus on revaluation of investments.	5,539	5,400	5,562	5,729
Retained earnings	15,248	15,593	17,250	19,310
Total shareholders' equity	**25,576**	**25,923**	**27,742**	**29,969**
Total liabilities and shareholders' equity	**215,590**	**245,841**	**268,922**	**305,059**

Quarter Income Statement (Million B)				
	4Q14	1Q15	2Q15	3Q15
Net premium income	7,446	15,711	7,252	8,368
Net investment income	2,259	2,511	2,466	2,715
Gain/(Loss) on investment in securities	955	1,016	80	54
Other income	68	(5)	33	13
Total revenues	**10,669**	**19,248**	**9,849**	**11,187**
Underwriting expenses	(7,306)	(17,850)	(7,033)	(11,710)
Operating expenses	(539)	(498)	(571)	(551)
Fx gains/ (loss)	-	-	-	-
Total expenses	**(7,845)**	**(18,348)**	**(7,605)**	**(12,261)**
Net profit Before taxes	**2,823**	**900**	**2,245**	**(1,074)**
Income taxes	(546)	(135)	(400)	287
Net profit	**2,278**	**765**	**1,844**	**(786)**
EPS (B)	1.34	0.45	1.09	(0.46)
Norm profit	**1,323**	**750**	**2,765**	**160**
Norm EPS (B)	**0.78**	**0.44**	**1.63**	**0.09**

Balance Sheet (Million B)				
Ended 31 Dec.	4Q14	1Q15	2Q15	3Q15
Investment in securities	198,238	212,733	224,442	226,543
Net loans	4,735	4,938	5,430	5,683
Cash and Deposits at FI	5,708	1,405	564	461
Property, plant and equipment, net	389	460	465	534
Other assets	6,520	10,524	7,660	9,097
Total assets	**215,590**	**230,061**	**238,561**	**242,317**
Life Premium Reserve	177,435	189,539	192,445	199,686
Other liabilities	12,579	14,754	18,721	17,359
Total liabilities	**190,013**	**204,293**	**211,167**	**217,045**
Paid-up share captial	**1,698**	**1,698**	**1,702**	**1,703**
Share premium	3,091	3,206	3,229	3,255
Surplus on revaluation of investments.	5,539	4,850	5,387	4,567
Retained earnings	14,678	15,443	16,506	15,176
Total shareholders' equity	**25,576**	**25,768**	**27,394**	**25,272**
Total liabilities and shareholders' equity	**215,590**	**230,061**	**238,561**	**242,317**

Financial Ratio				
Ended 31 Dec.	2014	2015F	2016F	2017F
Gross margin	-1.45%	-10.20%	-5.00%	-5.00%
Net margin	4.33%	1.12%	5.01%	5.71%
ROI	5.74%	5.32%	5.33%	5.42%
ROE	11.13%	2.23%	10.29%	11.90%
Underwriting expenses to Net Premium	6.15%	7.64%	7.68%	7.67%
Claims on Life Policy during the year/ Net Premium	24.74%	24.74%	24.74%	24.74%
Debt to Equity (x)	7.43	8.48	8.69	9.18

Financial Assumption				
Ended 31 Dec.	2014	2015F	2016F	2017F
Net premium income growth	31.9%	-22.1%	6.0%	8.0%
Underwriting expenses growth	30.3%	-16.5%	1.5%	7.4%
Investment growth	18.5%	14.0%	8.4%	11.2%
Persistency rate	79.8%	76.0%	71.0%	71.0%
Assets to Life Policy Reserve	121.5%	124.5%	123.7%	122.0%
Investment Assets to Life Policy Reserve	117.6%	120.2%	118.8%	116.5%
Equity to Life Policy Reserve	14.41%	13.13%	12.76%	11.99%

Source: Financial Statement/ ASPS Research