FINANSIA SYRUS

Company Note

3 March 2016

Insurance

BLA

Bangkok Life Assurance

Current	Previous	Close	2016 TP	Exp Return	Anti-corrupt	CGR 2015
BUY	BUY	40.00	56.00	+ 40%	4	4

Consolidated earnings

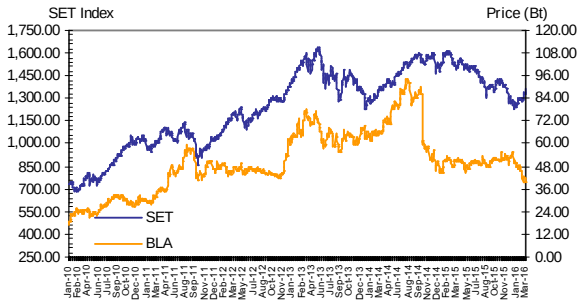
BT (mn)	2014	2015	2016E	2017E
Net premium (Btm)	51,172	44,175	53,758	59,134
Growth (%)	32	-14	22	10
Investment income (Btm)	8,812	10,171	11,156	12,941
Growth (%)	25	15	10	16
Net profit (Btm)*	2,662	4,108	3,257	3,852
EPS (Bt)	1.56	2.41	1.92	2.27
EPS (Bt) -fully diluted	1.56	2.41	1.92	2.27
Growth (%)	-40	54	-20	18
PE (x)	25.6	16.6	20.9	17.6
PE (x) - Fully diluted	25.6	16.6	20.9	17.6
DPS (Bt)	0.86	0.64	0.77	0.91
Yield (%)	2.2	1.6	1.9	2.3
BVPS (Bt)	15.06	15.90	17.05	18.55
P/BV (x)	2.7	2.5	2.3	2.2
Par (Bt)	1	1	1	1

Source: Company data, FSS estimates

Share data

Close (02/03/2016)	40.00
SET Index	1,365.31
Foreign limit/actual (%)	25.00/25.00
Paid up shares (million)	1,704.23
Free float (%)	41.59
Market cap (Bt mn)	68,169.43
vg. daily T/O (Bt mn) (2016 YTD)	85.58
hi, lo, avg (Bt) (2016 YTD)	55.75, 38.75, 45.64

Source: Setsmarts



Source: SET

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Reduce accounting limitation and aggressively build up market share

Yesterday, the management informed the meeting about a change in BLA's accounting principle in order to reduce earnings volatility when there was a change in interest rate. After which, its earnings will be more related to its operation. Besides earnings stability, we view that the change will make the company able to launch popular short-term product in order to build up market share without concern over policy reserve. We have raised our 2016E net profit by 7% to Bt3.2bn to factor in a decline in 2016E policy reserve. Although, we stand by our 2016 TP of Bt56 for now, it is possible that we will revise it up after the company reports its audited EV and VNB. Both of which are expected to come in higher than expected. Finally, we retain our BUY rating on BLA.

BLA to adopt new accounting principle to stabilize profit and remove limitation

At yesterday's analyst meeting, BLA had informed that it would adopt new accounting standards in order to make its performance less volatile when there was a change in interest rate. In this regard, there are two choices. First, the company might change discount rate from zero-coupon bond yield to an interest rate that is linked to return on assets, e.g. ROI. This option was proposed to its auditor in 3Q15 and is waiting for the Office of Insurance Commission's approval. Second, it might change how it values some of its investments, e.g. debt instruments with term that is in line with premium earned, to fair value. After which, there will be gain/loss on asset revaluation that offsets a rise/decline on policy reserve that moves in line with interest rate. Given the two, we view the latter is possible and should begin right away in 1Q16. No matter which, we believe the change is positive rather than negative because it will increase earnings stability (by removing impact of interest rate change). Moreover, BLA will be able to launch popular short-term policy to support sales and market share without concern over policy reserve.

Raise 2016E net profit by 7%

We have increased our 2016E net profit by 7% to Bt3.2bn (-20.7% Y-Y). Such upward revision factors in a decline in 2016E policy reserve to 68% (from 75%), assuming interest rate that is stable Y-Y. However, if interest rate does change, we believe BLA will be able to offset it with a rise in the value of its investment. In 2016, we expect BLA to book loss of 10-12% from its insurance business due to higher benefit payment. We predict ROI of about 4.8-4.9%, down from 5.04% in 2015 owing to lower interest income from debt instruments. Note we have priced in investment gain of Bt1.5bn into our estimate.

Stand by 2016 TP of Bt56; maintain BUY rating

In 1Q16, we expect BLA to report net profit of Bt725mn. Such estimate does not include cumulative effect of change in accounting principle. It implies a sharp loss of 32% Q-Q (because BLA reversed its reserve by about Bt2bn in 4Q15) and a decrease of 5% Y-Y (owing to a decline in investment income). For now, we stand by our 2016 TP of Bt56, assuming 2016 forward EV of 1.8x, because there is still wide upside. However, it is likely that we will revise our 2016 TP up after the company reports its audited EV and VNB. What's more, we have a more bullish view about the company after it has adopted a lower discount rate than last year's which is positive to its EV. Finally, we retain our BUY rating on BLA.

Income Statement (Consolidated)

(Bt mn)	2013	2014	2015	2016E	2017E
Net premium written	38,795	51,172	44,175	53,758	59,134
Net investment income	7,056	8,812	10,171	11,156	12,941
G/L from investment	593	1,515	1,163	1,500	1,500
Other revenue	0	0	0	0	0
Total revenue	46,444	61,498	55,509	66,414	73,574
Life policy reserve increase	25,357	40,818	29,874	36,555	40,211
Benefit paymt to policy holders	9,599	11,097	14,150	18,815	20,697
Dividend to policy holder	0	0	0	0	0
Commission and brokerage	2,705	2,807	2,855	4,301	4,731
Marketting expenses	352	311	436	480	527
Other underwriting expense	31	29	33	35	35
Total underwriting expense	39,296	56,349	48,587	60,186	66,201
Total operating expenses	1,720	1,881	2,054	2,190	2,381
Total expenses	41,017	58,230	50,641	62,376	68,582
Net profit*	4,381	2,662	4,108	3,257	3,852

Balance Sheet (Consolidated)

(Bt mn)	2013	2014	2015	2016E	2017E
Investment assets	161,126	198,238	227,563	262,506	300,943
-Treasury bond	n.a	n.a	n.a	n.a	n.a
-Debenture	n.a	n.a	n.a	n.a	n.a
-Stock	n.a	n.a	n.a	n.a	n.a
Net Loan	3,526	4,735	6,139	6,000	6,000
Cash and cash equivalent	1,331	5,708	7,102	8,000	10,000
Fixed assets	327	389	547	536	526
Due from reinsurers	0	0	0	0	0
Premium due and uncollected-net	1,840	1,725	1,717	2,404	3,366
Accrued income on investments	1,863	2,344	2,628	2,891	3,180
Other assets	1,433	1,687	2,959	2,500	2,500
Total assets	172,234	215,590	249,576	285,826	327,602
Life premium reserve	136,616	177,435	207,308	243,864	284,074
Accrued benefit payment	7,380	7,642	7,904	5,500	5,500
Due to reinsurers	450	380	459	500	500
Unearned premium	1,021	1,057	1,075	1,200	1,200
Other liabilities	3,547	2,239	4,469	4,692	3,652
Total liabilities	149,971	190,013	222,585	256,884	296,111
Paid up and premium	4,058	4,685	4,924	4,685	4,685
Unrealized G/L from investment	4,391	5,539	3,986	4,000	4,000
Appro R/E	522	571	571	522	522
Unappro R/E	13,225	14,678	17,460	19,631	22,179
Shareholders' funds (SHF)	22,264	25,576	26,990	28,942	31,491

Cash Flow Statement (Consolidated)

(Bt mn)	2013	2014	2015	2016E	2017E
Growth (%)					
Investment assets	19.4	23.0	14.8	15.4	14.6
Total assets	20.0	25.2	15.8	14.5	14.6
Net premium	13.7	31.9	-13.7	21.7	10.0
Net investment income	23.7	24.9	15.4	9.7	16.0
Policy reserve	10.9	61.0	-26.8	22.4	10.0
Underwriting expenses	15.7	43.4	-13.8	23.9	10.0
Operating expenses	15.6	9.3	9.2	6.6	8.7
Net profit	17.6	-39.2	54.3	-20.7	18.3
Profitability (%)					
Expense ratio	12.4	9.8	12.2	13.0	13.0
investment yield	4.3	4.3	4.3	4.7	4.6
Net retention prem / cap	185.9	213.9	168.1	192.2	195.7
Profit on underwriting	6.7	-4.0	-2.5	-3.0	-3.0
Net Profit Margin	9.6	4.4	7.6	5.0	5.3
ROE	21.0	11.1	15.6	11.6	12.7
ROA	2.8	1.4	1.8	1.2	1.3
ROI	5.0	5.5	5.0	4.9	4.9
D/E ratio (X)	6.7	7.4	8.2	8.9	9.4
Policy Lia. / Cap (X)	6.1	6.9	7.7	8.4	9.0
Policy reserve / TA (X)	0.8	0.8	0.8	0.9	0.9
Embedded value (Bt m)					
VIF	10,192	11,205			
Adj net worth	22,448	36,580			
EV	32,641	47,785			
VNB	1,862	1,143			
Capitalization					
Capital (Bt mn)	22,264	25,576	26,990	28,942	31,491
Capital / Equity (%)	100	100	100	100	100
Solvency ratio (RBC) (%)	247.0	409.0	341.0	269.2	266.3
Per share data (Bt)					
Shares in issue (mn)	1,212	1,698	1,698	1,698	1,698
EPS-Basic	2.59	1.56	2.41	1.92	2.27
EPS-FD	2.58	1.56	2.41	1.92	2.27
BVPS	18.37	15.06	15.90	17.05	18.55
DPS	0.91	0.86	0.64	0.77	0.91
DPS/EPS (%)	25.17	54.86	26.45	40.00	40.00
Valuations (x)					
P/E	15.5	25.6	16.6	20.9	17.6
Norm P/E	15.5	25.6	16.6	20.9	17.6
P/BV	2.2	2.7	2.5	2.3	2.2
Dividend yield (%)	2.3	2.2	1.6	1.9	2.3

Source: Company data, FSS research

**adj against new effective tax rate*

FINANSIA SYRUS

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Patumwan, Bangkok

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Lumpini, Pathumwan,
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Bangkok

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Bangkok

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24th Floor, Wireless Road,
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Bangkok

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Lumpini, Pathumwan,
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Kukod, Lumlookka
Pratumtanee

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Bangkok

Rattanatibet
68/127 Moo 8 Rattanatibet Road,
Tumbon Banggrasor,
Aumphoe Muang,
Nonthaburi

Sriracha
135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Khonkaen 1
311/16 2nd Floor, Klangmeung
Road, Tumbon Nai Meung,
Aumphoe Meung,
Khonkaen

Khonkaen 3
4/6, 2 fl., ICBC Bank Tower
Khang Meung Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Udonthani
104/6, 2 fl., ICBC Bank Tower
Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Chiangmai
308 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 2
310 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 3
Maliplace Building 32/4 moo 2
1 fll., B1-1, B1-2 room
Tumbon Maehia
Chiangmai

Chiangrai
353/15 Moo 4,
Tumbon Rimkok
Aumphoe Muang, Cheangrai

Measai
119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Nakornratchasima
1242/2 A3 room, 7 fl.,
The Mall Ratchasima
Mittraphap rood Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Samutsakorn
1045/16-17 Vichienchodok,
Tumbon Mhachai, Aumphoe
Meungsamutsakorn, Samutsakorn

Nakornpathom
28/16-17 Yingpao Road,
Tumbon Sanamjan,
Aumphoe Muang, Nakornpathom

Phuket
22/18 Vanish Plaza Shopping
Mall, Luangporwatchalong Road,
Tumbon Talad Yai,

Hatyai 1
200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Hatyai 2
106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Hatyai 3
200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Krabi
223/20 Mharaj Road,
Tumbon Paknam,
Aumphoe Meung, Krabi

Trang
59/28 Huaiyod Road,
Tumbon Thaptieng,
Aumphoe Meungtrang, Trang

Suratthani
173/83-84 Moo 1
Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumphoe Mueang, Suratthani

Pattane
Aumphoe Meung, Phuket
300/69-70 Moo 4,
Tumbon Ruramirae,
Aumphoe Meung, Pattane

Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

Note: The expected return may change as market risks increase or decline.

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FINANSIA SYRUS

Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2015

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

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Anti-corruption Progress Indicator

Level 5	Extended	Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
Level 4	Certified	Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
Level 3	Established	Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
	- Level 3A	Established by Declaration of Intent
	- Level 3B	Established by Internal Commitment and Policy
Level 2	Declared	Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
Level 1	Committed	Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws

Anti-corruption Progress Indicator from Thaipat Institute (as of November 6, 2015)