BUALUANG SECURITIES

COMPANY UPDATE

Bangkok Life Assurance

BLA TB / BLA.BK

3 March 2016

Ambitious growth target for FY16

Investment thesis

BLA continues to sell more long-term products in FY16, such as medium-term endowments, pensions, protections and riders. All need medium provisions for their life-policy reserves lower than we currently assume. BLA has set a big target for total premium growth (25%), which is far above our number of 13%. These imply scope for upsides to our FY16 earnings after its total premium dipped 14% in FY15. Yet, taking a conservative stance, we have maintained our FY16 profit forecasts of Bt3bn for FY16, down 27%YoY, before rising 32% in FY17 to Bt4bn. Our BUY rating stands with a YE16 TP of Bt52, pegged to embedded value of Bt31.67/share and total VNB of Bt20.35/share.

Ambitious target FY16 FYP of Bt22bn, led by riders and protection

BLA still focuses on long-term products and medium-term policies in FY16 (whole life, credit life, pension and medium-term endowments such as Gain 1st 245 plus). The strategy intends to drive both the top and bottom lines. The firm targets an ambitious total premium growth of 24.5% to Bt55bn and FYP growth of 61% to Bt22bn in FY16. Note we forecast that its FY16 FYP and total premium will grow 20% and 13%, respectively. We see scope for upside if BLA can reach its targets.

FY16 provision is set at 67-68%, down from 70.4% in FY15

The emphasis on medium-long-term products in FY16 will mean lower provisions for the life-policy reserve in FY16 against last year (excluding extra provision for interest rate risk), following heavy FY15 provisions of Bt31bn (about 70.4% of total premiums). BLA guides for FY16 provisions to come in the range of 67-68% of total premiums, which is far below our conservative number of 71% (including extra provision for interest rate risk of Bt2bn).

Maintain ROI target of 4.7-4.8% in FY16

Management reaffirmed FY16 ROI of 4.75% (excluding investment gain) following 5.0% in FY15. The possibility of low bond yields early in the year would force BLA to seek high-dividend stocks and long-term foreign bonds with high yields of over 6.5%. The firm invests Bt30bn (13% of total investments) in equities, unit trusts, REITs and loans that yield about 6-7%. We conservatively forecast BLA to have FY16 ROI of 4% (excluding investment gains), which is far below BLA's guidance.

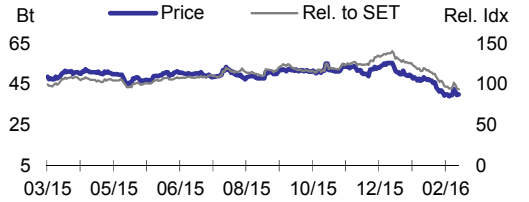
Solid CAR to drive long-term expansion without capital-raising

Given its rising investment in risky assets in FY15, BLA's CAR dropped to 310% in 4Q15 from 409% in 3Q15. Management guides that a current CAR will allow BLA to be more aggressive with higher-yield assets (such as structured notes, REITs and infrastructure funds) in order to strengthen its ROI as well in FY16. Note that the firm has set the comfort level for its CAR to stay at over 250%, which is still higher than the minimum requirement of 140% from the Office of Insurance Commission (OIC).

Sector: Insurance – OVERWEIGHT

Rating: BUY
Target Price: Bt52.00
Price (2 March 2016)**: Bt40.00**

Price chart

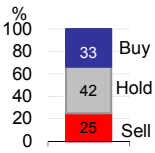


Share price perf. (%)	1M	3M	12M
Relative to SET	(21.6)	(25.0)	(5.3)
Absolute	(15.3)	(23.1)	(17.9)

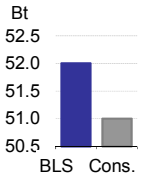
Key statistics

Market cap	Bt68.2bn	USD1.9bn
12-mth price range	Bt38.8/Bt56.3	
12-mth avg daily volume	Bt55m	USD1.5m
# of shares (m)	1,704	
Est. free float (%)	41.6	
Foreign limit (%)	25.0	

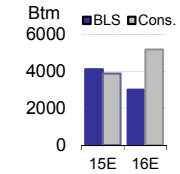
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015	2016E	2017E
Total rev (Btm)	61,427	55,589	61,105	65,678
Net profit (Btm)	2,662	4,108	3,000	3,950
Fully diluted EPS (Bt)	1.56	2.41	1.76	2.31
EPS growth (%)	-39.2%	+54.3%	-27.0%	+31.7%
PER (x)	27.4	17.8	24.3	18.5
EV/EBITDA (x)	24.2	17.5	24.0	18.7
PBV (x)	3.57	2.71	2.54	2.28
Dividend (Bt)	0.51	0.64	0.53	0.70
ROA (%)	1.2	1.6	1.0	1.2
Net gearing (x)	7.2	8.0	8.9	9.2
Total loss ratio (%)	79.8	70.4	71.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

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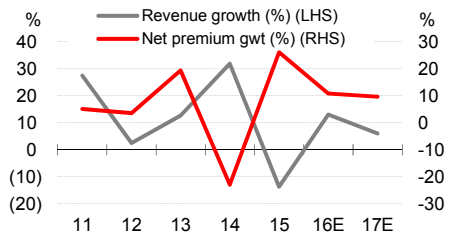
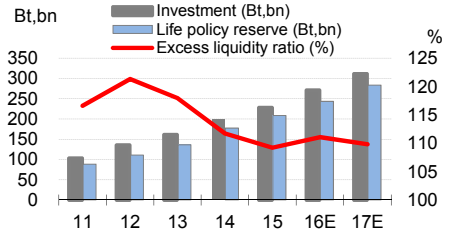
BLA: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015	2016E	2017E
Insurance premium	38,795	51,172	44,175	49,937	52,933
Less Life policy reserve	(25,357)	(40,818)	(31,114)	(35,455)	(37,053)
Net premium	**13,438**	**10,354**	**13,061**	**14,482**	**15,880**
Underw riting expenses	(13,939)	(15,531)	(17,473)	(19,755)	(21,205)
Profit from insurance	**(501)**	**(5,177)**	**(4,412)**	**(5,274)**	**(5,325)**
Revenue on investment	7,601	10,255	11,414	11,168	12,745
Other income/exp.	39	48	64	73	77
Net revenue	**7,139**	**5,126**	**7,066**	**5,967**	**7,497**
Operating expenses	(1,828)	(2,018)	(2,179)	(2,360)	(2,699)
EBIT	**5,311**	**3,108**	**4,887**	**3,607**	**4,798**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(779)	(607)	(848)
Net profit (loss)	**4,381**	**2,662**	**4,108**	**3,000**	**3,950**
Reported EPS	3.62	1.56	2.41	1.76	2.31
Fully diluted EPS	**3.62**	**1.56**	**2.41**	**1.76**	**2.31**
Core net profit	**4,341**	**2,614**	**4,044**	**2,927**	**3,873**
Core EPS	3.58	1.53	2.37	1.71	2.27
EBITDA	**5,407**	**3,204**	**4,983**	**3,703**	**4,894**
KEY RATIOS					
Revenue grow th (%)	12.7	31.9	(13.7)	13.0	6.0
Gross margin (%)	15.4	8.3	12.7	9.8	11.4
EBITDA margin (%)	11.6	5.2	9.0	6.1	7.4
Operating margin (%)	9.4	4.3	7.3	4.8	5.9
Net margin (%)	9.4	4.3	7.4	4.9	6.0
Core profit margin (%)	9.4	4.3	7.3	4.8	5.9
ROA (%)	2.5	1.2	1.6	1.0	1.2
ROE (%)	19.7	10.4	15.2	10.4	12.3
Commission/Insurance premium	11.2	9.3	15.0	13.0	13.5
Life policy Provision/insurance premium r	65.4	79.8	70.4	71.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	114.9	115.3	115.2
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	7,102	2,000	3,000
Total investment in securities	161,126	198,238	227,584	270,825	311,449
Total net loans	3,526	4,735	6,139	6,753	7,382
Premises & equipment (Net)	327	389	547	558	569
Other assets	5,925	6,520	8,204	6,173	6,946
Total assets	**172,234**	**215,590**	**249,576**	**286,309**	**329,346**
Life policy reserve	136,616	177,435	208,383	243,838	283,541
Unpaid benefit to life policy	8,800	1,489	470	1,175	2,118
Premium received in advance	950	2,239	459	500	550
Other liabilities	3,604	8,851	13,272	12,033	11,057
Total liabilities	**149,971**	**190,013**	**222,585**	**257,546**	**297,266**
Paid-up capital	1,212	1,698	1,704	1,704	1,704
Share premium	2,846	3,091	3,220	3,220	3,220
Retained earnings	18,138	20,787	22,017	23,791	27,107
Shareholders equity	**22,264**	**25,576**	**26,990**	**28,764**	**32,080**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**249,575**	**286,309**	**329,346**
CASH FLOW (Btm)					
Net income	4,381	2,662	4,108	3,000	3,950
Depreciation and amortization	136	143	150	157	165
Change in w orking capital	23,571	39,586	30,708	35,905	37,736
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**34,966**	**39,062**	**41,851**
Capex (Invest)/Divest	(88)	(126)	(247)	(11)	(11)
Others	(27,427)	(49,777)	(39,023)	(43,496)	(40,762)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(32,407)**	**(43,507)**	**(40,773)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	0
Dividend payment	(917)	(678)	(1,325)	(1,090)	(634)
Others	(27,427)	(49,777)	(39,023)	(43,496)	(40,762)
Cash flows from financing activities	**(107)**	**(678)**	**(1,325)**	**(1,090)**	**(634)**
Net change in cash	465	5,183	1,235	(5,535)	444
Free cash flow (Btm)	**28,000**	**42,264**	**34,719**	**39,051**	**41,840**
FCF per share (Bt)	**23.1**	**24.7**	**20.3**	**22.9**	**24.5**
Insurance data	**2013**	**2014**	**2015**	**2016E**	**2017E**
FYP (Btm)	6,818	8,928	7,707	8,712	9,235
RYP (Btm)	28,545	37,379	32,268	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	44,175	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

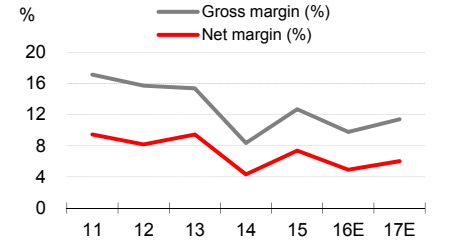
Revenue and net premium growth



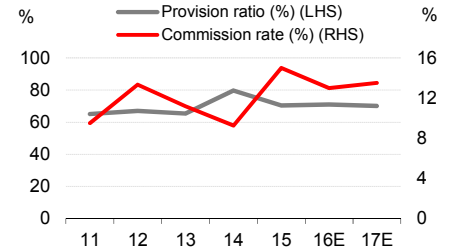
Excess liquidity



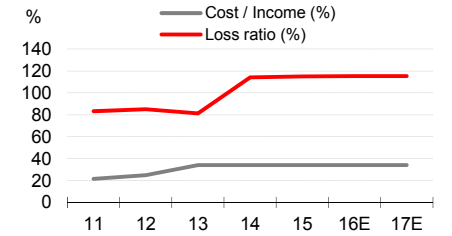
Profit margins



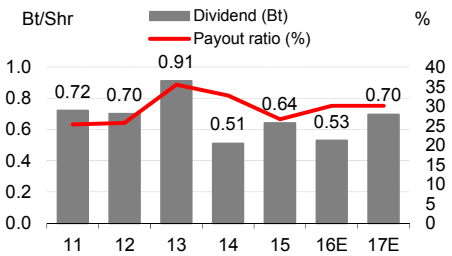
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



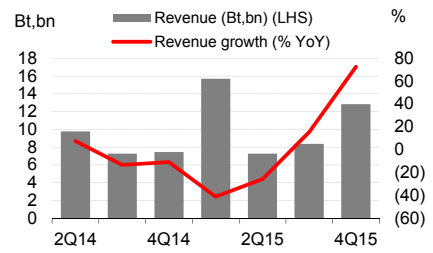
BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q14	1Q15	2Q15	3Q15	4Q15
Net insurance premium revenue	7,446	15,711	7,252	8,368	12,844
Less provision for life policy reserve	3,187	12,104	2,906	7,241	8,862
Revenue realization on premium	4,260	3,607	4,346	1,127	3,982
Underw riting expenses	4,120	5,746	4,127	4,469	3,131
Profit from insurance business	140	(2,139)	219	(3,342)	850
Net investment income	2,259	2,511	2,466	2,715	2,478
Gain on investment	951	1,010	113	91	29
Total revenue from investment	3,210	3,522	2,579	2,806	2,507
Other income	13	15	18	13	18
Total revenues	3,362	1,398	2,816	(523)	3,375
Total operating expenses	539	498	571	551	559
Exceptional items	0	0	0	0	0
EBT	2,823	900	2,245	(1,074)	2,816
Income tax	546	135	400	(287)	531
Minority Interest	(0)	0	(0)	(0)	0
Net profit	2,278	765	1,844	(786)	2,285
EPS	1	0	1	(0)	1
Core profit before tax	1,859	(126)	2,113	(1,177)	2,769
Core EPS	1	(0)	1	(1)	2
KEY RATIOS					
Premium/life policy reserve (%)	17	33	15	17	25
Life policy provision/Premium (%)	43	77	40	87	69
Claim/life policy (%)	7	24	28	25	27
ROI (%)	6	7	5	5	4
Net margin (%)	21	4	19	(7)	15
Equity/Life policy reserve (%)	14	14	14	14	13
BV (Bt)	21	15	16	15	16
ROE (%)	38	12	29	(11)	36
ROA (%)	4	1	3	(1)	4
D/E (x)	8	7	8	8	9
Cost to Income (%)	16	36	20	147	98

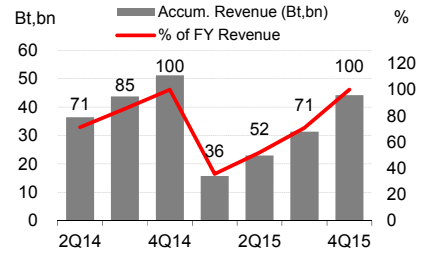
QUARTERLY BALANCE SHEET (Btm)	4Q14	1Q15	2Q15	3Q15	4Q15
Cash & Equivalent	5,708	1,405	564	461	7,102
Total investment in securities	198,238	212,733	224,442	226,543	227,584
Total net loans	4,735	4,938	5,430	5,683	6,139
Premises & equipment (Net)	389	460	465	534	547
Other assets	6,520	10,524	7,660	9,097	8,204
Total assets	215,590	230,061	238,561	242,317	249,576
Life policy reserve	177,435	189,539	192,445	199,686	208,383
Unpaid benefit to life policy	1,489	1,690	4,620	1,612	470
Premium received in advance	380	566	628	723	0
Other liabilities	10,710	12,498	13,473	15,024	13,732
Total liabilities	190,013	204,293	211,167	217,045	222,585
Paid-up capital	1,200	1,200	1,200	1,200	1,704
Share premium	2,700	2,700	2,700	2,700	3,220
Retained earnings	14,678	15,443	16,506	15,176	22,066
Shareholders equity	25,576	25,768	27,394	25,272	26,990
Minority interests	0	0	(0)	0	0

Insurance data	4Q14	1Q15	2Q15	3Q15	4Q15
FYP (Btm)	768	1,672	1,052	2,538	3,821
RYP (Btm)	6,240	13,914	5,806	5,398	6,097
SP (Btm)	530	436	537	501	3,070
Total premium (Btm)	7,538	16,022	7,395	8,437	12,988
FYP+SP mkt (%)	3.2	5.3	3.7	7.5	14.1
Total premium Mkt (%)	5.8	12.0	9.5	6.6	8.9

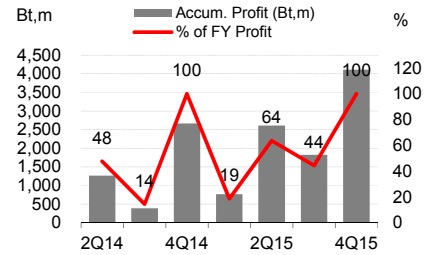
Revenue trend



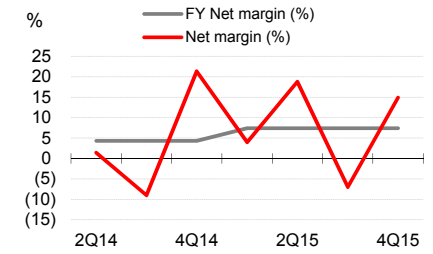
Revenue trend (accumulated)



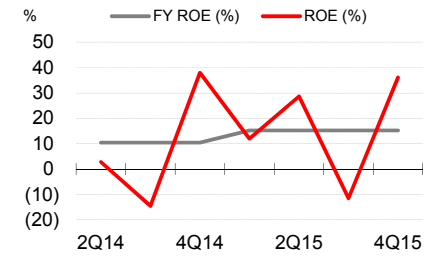
Net profit trend (accumulated)



Net margin



ROE



Company profile

Bangkok Life Assurance Public Company Limited (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 in market share of 8% for total life assurance premiums in FY15.

Figure 1: Total life assurance premium market share (%), FY05-FY15

Market share of Total premium (%)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
American International Assurances (AIA)	42.7	41.9	38.9	37.9	33.3	31.0	28.7	26.3	25.0	22.8	22.2
Audhya Allianz C.P Life Plc., (AZAY)	11.8	10.6	9.5	6.5	6.1	6.2	6.3	5.8	5.7	5.4	5.4
Thai Life Insurance	15.6	14.1	15.2	14.4	13.7	12.4	12.2	12.5	12.4	12.5	12.7
SCB Life Insurance Plc	5.2	5.8	6.0	6.8	7.5	8.3	9.2	10.7	10.3	9.6	9.9
Muang Thai Life Assurance	4.9	5.8	6.8	7.7	8.3	10.0	11.5	12.5	13.6	14.9	16.3
Bangkok Life Assurance Plc.,	**5.5**	**6.0**	**6.1**	**6.7**	**7.7**	**8.9**	**9.6**	**8.9**	**8.8**	**10.3**	**8.3**
Krungthai AXA Life Insurance	1.7	2.1	2.9	4.1	4.9	6.0	6.4	7.4	8.5	9.7	10.2
Ocean Life Insurance	4.8	5.1	4.6	4.3	4.1	3.9	4.0	3.8	3.1	2.9	2.6
Prudential Life Assurance (Thailand) Plc.	0.6	0.7	0.9	1.1	1.2	1.2	1.3	1.4	2.3	3.1	3.2
Others	2.6	2.8	3.2	4.2	6.6	5.5	4.9	5.5	10.2	8.8	9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: TLAA and Bualuang Research estimates

Figure 2: BLA's net investment income (Btm) and net ROI (%), FY05-FY14 and Investment asset breakdown, FY08-FY15

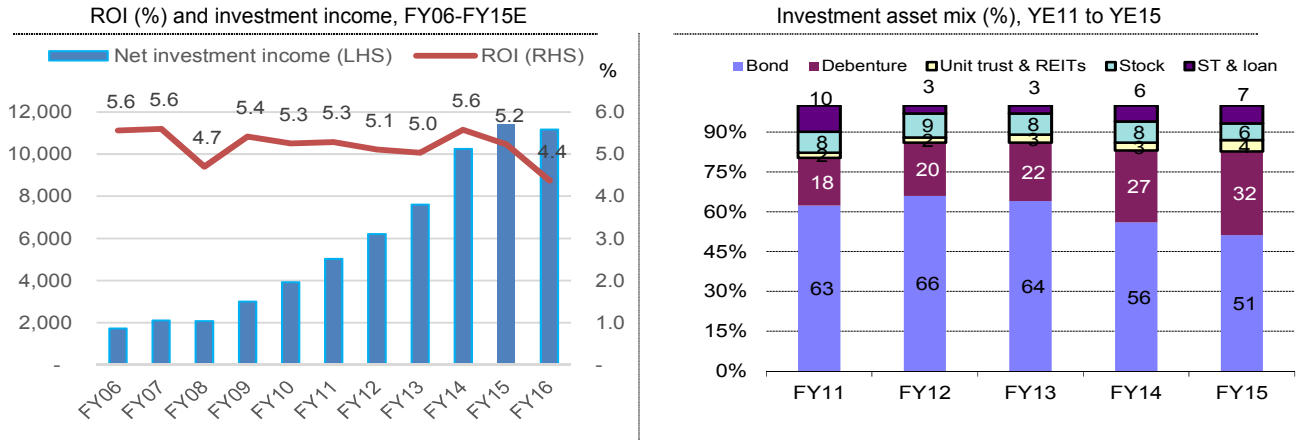
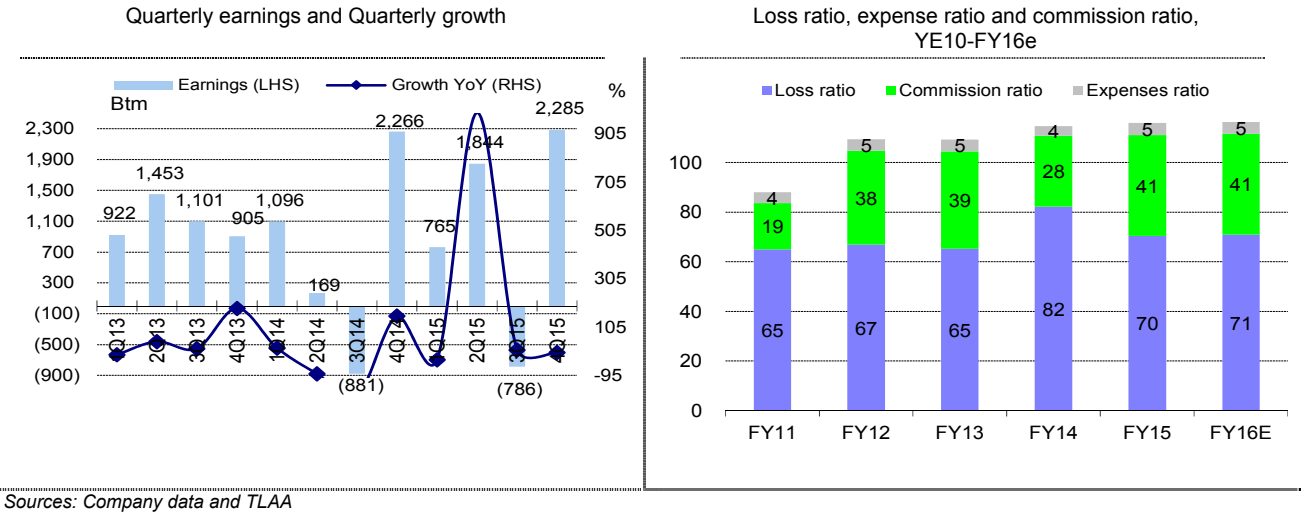


Figure 3: Earnings movement (Btm), growth (%) and debt/equity ratio, YE10-FY15e, and combined ratio (%)

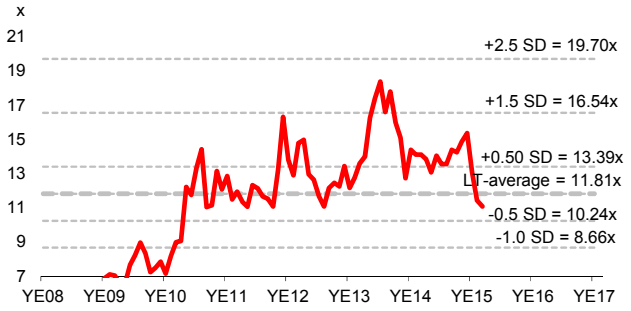


Sources: Company data and TLAA

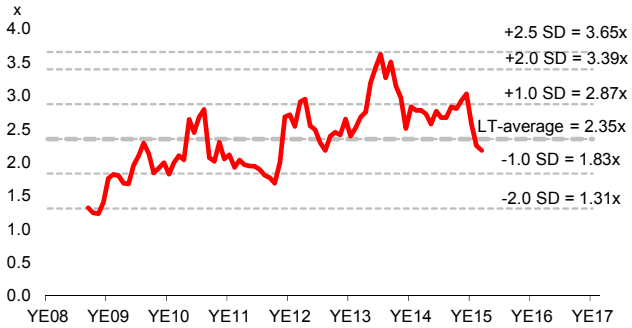
Regional Comparisons

	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	CNY30.2	82,960	9.6	8.7	24.7	10.2	1.5	1.3	17.8	16.8	1.6	1.8
China Life Insurance	601628 CH	CNY21.8	85,774	14.9	14.0	27.1	7.2	1.9	1.8	14.0	13.6	2.2	2.3
China Pacific Insurance (Group	601601 CH	CNY24.5	32,918	13.4	13.3	51.0	0.7	1.7	1.6	13.1	12.2	2.5	2.7
T&D Holdings	8795 JP	JPY1,152.0	6,913	8.9	8.3	-8.2	5.8	0.5	0.5	6.1	6.4	2.5	2.8
Bangkok Life Assurance	BLA TB	THB40.00	1,918	16.6	22.8	54.3	-27.0	2.5	2.4	15.2	10.4	1.6	1.3
Thaire Life Assurance	THREL TB	THB10.30	174	15.9	13.9	4.6	14.5	4.8	4.4	31.4	32.9	4.9	5.6
Simple average				**13.2**	**13.5**	**25.6**	**1.9**	**2.2**	**2.0**	**16.3**	**15.4**	**2.5**	**2.8**

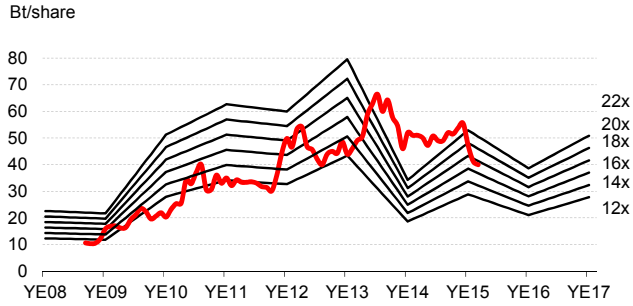
PER band versus SD (next 12 months)



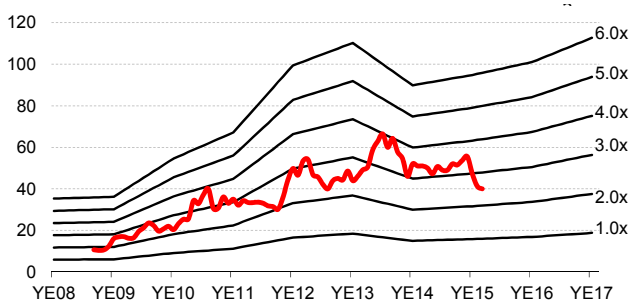
PER band versus SD (next 12 months)



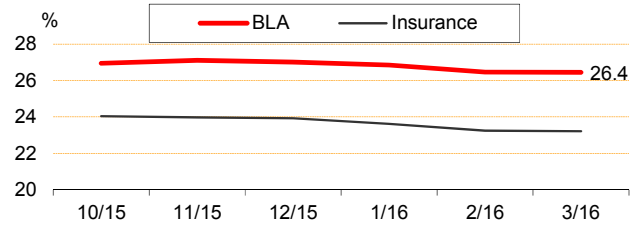
PER band and share price



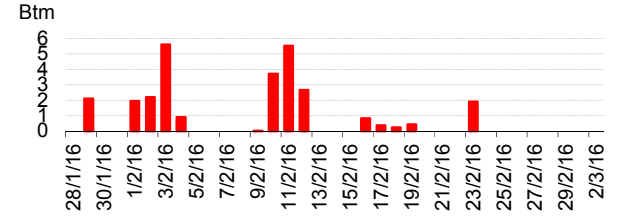
PBV band and share price



Foreign holdings



Short selling activities during past four weeks



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

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.